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IMPACT OF EMPLOYMENT ON UNITED STATES-JAPAN AUTO RELATIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON
EMPLOYMENT AND PRODUCTIVITY

OF THE

COMMITTEE ON
LABOR AND HUMAN RESOURCES
UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

EXAMINING THE IMPACT OF TRADE IN AUTOMOTIVE PARTS AND ACCESSORIES BETWEEN THE UNITED STATES AND JAPAN ON EMPLOYMENT

SEPTEMBER 25, 1986

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IMPACT OF EMPLOYMENT ON UNITED STATES-JAPAN AUTO RELATIONS

THURSDAY, SEPTEMBER 25, 1986

U.S. Senate,
Subcommittee on Employment and Productivity,
Committee on Labor and Human Resources,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room SD-430, Dirksen Senate Office Building, Senator Dan Quayle (chairman of the subcommittee) presiding.

Present: Senators Quayle, Simon, and Grassley.

OPENING STATEMENT OF SENATOR QUAYLE

Senator Quayle. The committee will come to order.

Today we are going to have an extension of hearings on the impact of trade in the automotive parts and accessories between the United States and Japan. This is an extension of hearings held last year on the overall trade policies and their effect on employment in the United States. Last year, we had hearings on automotive, steel, agriculture, and communications.

Today, we are going to get rather specific once again and look at the trade situation, particularly in the area of automotive parts.

The first witness we have is Hon. Bruce Smart. We are delighted to have him here today. And I would just say, before we get started, that I think everybody is very sensitive to the overall trade deficit now facing this country. We are particularly sensitive to the bilateral trade deficit between the United States and Japan. The bilateral trade deficit of almost $50 billion alone on its face speaks to a problem—a problem that we hope to be able to remedy; a problem that can be remedied either through negotiation, like the MOSS talks, or legislation, or executive response, but one that we must address in a very serious and open manner.

My interest particularly in the automotive parts and accessories comes from a natural bias, being a Senator from Indiana, because the auto parts industry is a very large employer in my State. We have over 200 auto parts manufacturers that employ 38,000 to 40,000 people alone.

But the question we wish to examine through these hearings is, if in fact domestic United States producers of auto parts can produce a part at a quality advantage and a cost advantage, and if so, then why aren't we making more progress vis-a-vis not only market penetration in Japan, but perhaps even more importantly in the long run, market access to Japanese auto plants that are coming over here and providing automobiles?

It seems to me that there has been—just looking at this special relationship between the production facilities and spare parts—"kieretsu" I believe, is the proper word that has been bandied about to describe this relationship—a lack of access. And you know, we are not asking for any kind of special treatment, we are not asking for, nor demanding, any tariff on quotas. The basic demand of the U.S. parts industry is simply for a fair opportunity to compete.

I do not believe from my review of it that the U.S. parts producers have had such an opportunity. If you look at quality and cost, if we can compete, we ought to be doing a lot better than we are.

And so I would think that this is one area that we can address and examine specifically as it contributes to the trade imbalance, and more importantly, the trade imbalance on a bilateral basis.

[The prepared statement of Senator Quayle follows:]

Senator Dan Quayle

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STATEMENT OF U.S. SENATOR DAN QUAYLE (R-IN),
CHAIRMAN, SENATE LABOR AND HUMAN RESOURCES
EMPLOYMENT AND PRODUCTIVITY SUBCOMMITTEE,
AT A HEARING ON U.S.-JAPAN TRADE IN AUTOMOTIVE PARTS AND ACCESSORIES
September 25, 1986

I called this hearing of the Employment and Productivity Subcommittee today to examine the implications for employment in this Nation and my State of Indiana of the serious imbalance in trade between the U.S. and Japan in automotive parts and accessories.

I believe we must pursue every means possible to reduce the U.S. trade deficit, which totalled a whopping $150 billion last year, including a $49.7 billion deficit with Japan alone. Particularly where unfair foreign trade practices are costing American jobs, we must make it plain to our trading partners that market access has to be a two-way street.

The inequity in U.S.-Japan auto-parts trade is only the most recent chapter in what has become an exhaustive volume of disputes between the United States and Japan over trade practices. Unlike most such disputes, however, this one results from commercial business relationships rather than traditional barriers to trade. For this reason, the auto-parts trade imbalance is an especially difficult one to address, and it may be equally difficult to measure the results of vital attempts to increase the sale of American-made parts to Japanese automakers.

Still, we must work to resolve this dispute by insisting that U.S. parts manufacturers be allowed fairer access to the Japanese automakers' market both here and in Japan. Opening the Japanese auto market to U.S. parts is critical to my home State, where over 200 auto-parts manufacturers employ 38,000 employees. Nationwide, the U.S. auto-parts manufacturing industry employs over 600,000 workers. For their sake, for the sake of consumers and for the sake of both multi-national corporations and family-owned companies, we must send a clear signal that, if U.S. markets are to remain open to foreign manufacturers, they in turn must give American manufacturers a fair opportunity to compete in their markets. In my opinion, our ability to resolve this dispute will have implications for U.S.-Japan trade relations in areas well beyond that of auto parts and accessories.

The U.S. Department of Commerce has reported that approximately $24 billion of the U.S. trade deficit with Japan last year was in automotive-related commerce, including $3 billion in auto parts. Yet American firms supplied less than one percent of the $55 billion worth of original and after-market parts used in vehicles assembled and serviced in Japan -- and no more than 40 percent of the parts used in any of the 200,000 cars and trucks Japanese companies produced in the U.S. last year.

Why is there such a gross imbalance? The inequity in auto-parts trade, a study recently completed by the Commerce Department found, cannot be blamed on the price or quality of American-made parts. The fact is that U.S. suppliers are competitive on both counts in every auto-parts category.

[MORE]

The principal source of the auto-parts dispute -- and the central focus of this hearing -- is the "keiretsu" relationship that exists between Japanese automakers and their traditional Japanese-owned parts suppliers. This closed, non-competitive and unfair relationship that each Japanese automaker has with a select group of Japanese suppliers is what is blocking our parts manufacturers' access to the Japanese auto market, both in Japan and in the U.S. Inherent in this cozy relationship is a bias against U.S. suppliers that is denying them the fair opportunity to compete they deserve.

On August 20, in Tokyo, representatives of the U.S. auto-parts industry, together with a multi-agency delegation led by the Commerce Department, opened formal discussions with the Japanese on this issue. These Market Oriented, Sector-Specific (MOSS) Talks on auto-parts trade will reconvene in Washington next month and continue over the next year. I am pleased that the chief U.S. negotiator to these talks is here today to brief this Subcommittee on their progress and prospects.

I believe the MOSS Talks on auto parts are an important means of addressing the inequity in this area, but it is clear that cooperation between Japanese and American manufacturers will be necessary for there to be the lasting and meaningful improvement in sales of American-made parts that is required. I also believe that, as our MOSS negotiators and we in Congress pursue this issue, we must guard against actions that intrude unduly upon private business transactions or prove destructive to economic development in the U.S. Because the barrier that now limits U.S. parts manufacturers' access to the Japanese automakers' market is not statutory or technical in the traditional sense, but rather a relationship between Japanese automakers and Japanese suppliers that has developed over years, we must be careful to distinguish between legitimate and anti-competitive business practices as we seek to increase sales of American-made parts.

The auto-parts issue could be divided into several topics -- including access to the Japanese market for original or after-market parts, the procurement of parts used in Japanese vehicles assembled in the United States or the effect of the increasing number of Japanese parts manufacturers locating in the U.S. -- any one of which could be the subject of this hearing. But for the purposes of this oversight hearing, I have not asked our witnesses to limit their comments to any one aspect of the subject. There is, however, an element common to all facets of the issue that I expect each of our witnesses will testify on, and that is the procurement practices of Japanese automakers.

###

Senator **Quayle**. Our first witness today is the Honorable S. Bruce Smart, who is the Under Secretary for International Trade of the Department of Commerce, the one who has been spearheading these MOSS talks. We have had one round of MOSS, and I believe we will hold another round later on. He can give us an update and fill us in, and then we will ask some questions.

Mr. Smart, welcome.

STATEMENT OF HON. S. BRUCE SMART, UNDER SECRETARY OF INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE, WASHINGTON, DC

Mr. **Smart**. Mr. Chairman, thank you for the chance to visit. I have a fairly detailed set of testimony here, which I will not read, but submit instead for the record. It includes a lot of the statistics that may be useful here.

I thought perhaps as an introduction to exchange of views through questions, it would be helpful if I outlined some of the background and the present state of the art of the so-called MOSS talks on transportation machinery, of which the initial segment is auto parts.

You probably remember that the MOSS process was initiated about a year and a half ago by the President and Prime Minister Nakasone as an attempt between the United States and Japanese Governments to identify barriers to trade in selected market areas so that United States producers could be more effective in selling into Japan.

The initial target areas selected were forest products, medical products and pharmaceuticals, electronics, and telecommunications. And in all of those cases, the principal barriers to access to the Japanese market were governmental restrictions of one form or another.

The MOSS talks on those four sectors were generally successful. They were brought to a conclusion and put into a monitoring phase sometime during the first half of this year, depending on which category you are talking about, and it was decided to continue the process with at least one and maybe more additional sectors for 1986.

A number of candidates were selected, among them auto parts, which was nominated by the Department of Commerce because we had already been having discussions with MITI on how we could address the deficit in trade that we were seeing grow in this area. We felt that if we could get it under the MOSS umbrella, we then had the commitment at the highest level of both governments to do something serious about it, and it was accepted by the Japanese, I think, in May and has become now our newest and most active sector of discussions.

The crowd in this room, as well as the figures, will suggest the importance of the issue. We have with Japan in 1985 approximately a $24 billion trade deficit in the automotive sector, both vehicles and parts. That is about half of the Japanese trade deficit, and of course, the trade deficit with Japan represents about a third of our world trade deficit.

Of that $24 billion, about $5 billion is in parts, both original equipment parts and replacement parts. The statistics show that $3 billion come into this country as parts; another $2 billion come in through foreign trade zones and come into our statistics as automobiles.

But in any event, it is a major area of trade. The United States uses approximately $86 billion of components for automobiles, both for new vehicles and for replacements, and Japan uses about $50 billion. Of that $50 billion in Japan, less than 1 percent is supplied by United States vendors.

Our efforts in this MOSS talk are a little bit different from the previous four categories. In those, we were talking strictly about access to the Japanese market. Here, we are broadening our horizon to address the whole of this trade deficit because we feel that its existence is a threat to Japan and to Japanese auto companies, just as it is to American parts vendors.

And so we are looking not only at the Japanese market, but we are looking at the market for parts for Japanese-brand cars assembled in the United States, and we are looking at the market for Japanese-brand cars assembled in third countries.

We are also looking at the aftermarket for Japanese-brand cars, regardless of on whose roads they are operating.

Unlike the previous MOSS sectors, the impediments here are largely private practices rather than Government regulations or limitations. There are some Government regulations that apply particularly in the aftermarket, but they are not the heart of the problem. The heart of the problem has been that, perhaps for good reasons in the past, Japanese auto companies have limited themselves to considering suppliers that they have traditionally used—Japanese-owned companies, perhaps even companies partly owned by the auto manufacturers themselves—and have been unwilling to consider qualified vendors from outside of that tight family circle.

It is our intent to point out that not only with respect to the trade deficit, but in the interest of the quality, competitiveness and reputation of the Japanese-brand cars themselves, it is appropriate now to broaden that horizon of purchasing and include qualified American companies.

The Japanese clearly want engineering innovation to be supplied by their parts suppliers. They want quality. They want inventories to be minimal, to rely on just-in-time deliveries, and to have consistent smooth quality which keeps their manufacturing process flowing uniformly. And they want, of course, an easy and informal relationship between purchaser and suppliers.

Those are characteristics that are not beyond the reach of American companies. Many U.S. industries recognize the importance of the supplier keeping the manufacturing process of his customer working at maximum efficiency. Although American companies are not unfamiliar with this responsibility, I believe that our reputation for that is not well established in Japan.

We had the first meeting of the MOSS auto parts talks on August 20 in Tokyo, with officials of MITI. Their side was headed by Vice Minister Kuroda, who is my counterpart. I headed our delegation. And we introduced the subject and agreed that it needed attention and set up a work plan which was to be followed by working group meetings, the first of which took place 2 days later, and the second of which will take place in October of this year.

Our plan is to establish in conjunction with MITI a data base so that we understand what is bought and how much is bought, and from this, we can select those segments of this industry where U.S. companies have the best chance to be competitive and where we can make the easiest penetration.

We will also exchange anecdotal information with the Japanese. We will explain places where our companies have had difficulty getting access to purchasing decisionmakers in Japanese auto companies, and they will explain instances in which they feel American companies have either failed in their selling effort or failed to produce the quality or reliability of whatever is desired.

We think that through this exchange of anecdotal information, we will be able to zero in on where the problems of either perception or real performance are, and together with government as an agent of change, if you will, we can improve and broaden the relationship, the private relationship, between American companies and Japanese companies.

I personally think it is extremely important for the Japanese companies to consider American suppliers in their own self-interest. Obviously, if you are an industrial firm and you deny yourself access to some of the good technology in the world and some of the good ideas, to that extent you are less competitive than you would be otherwise.

In addition, there is a real perception in the United States that the Japanese market is closed and unfair. There is also a reminder on every block in a city like Washington that the Japanese presence is pervasive and that reminder is the label of Toyota or Nissan or Honda. If that perception broadens to where it affects American consumers' purchasing actions, then the first companies to lose are going to be the Japanese-brand auto companies, regardless of where the particular car is made. So I think it is greatly in the interest of the Japanese companies to open up their purchasing practices.

I think they do probably have some legitimate concerns over American selling practices, and we are going as part of our talks to involve our own industry as deeply as we can, so that we can pass on quickly to them any suggestions that we develop as to how they might change their approach in attempting to crack this market.

This is not going to be as easy an opportunity or as quick a one, perhaps, as the previous MOSS talks, because instead of dealing with Government-created barriers, we are dealing with private practices that, while they may seem unfair to Americans, are unlikely to be illegal under international trading laws or assailable by American trade legislation.

So for this reason I think we are more in an area of business conduct than in an area of illegal trade practice. As an old salesman, I believe if you can persuade the customer it is in his interest to do business with you, he is going to give you some orders down the road, and I think that is what we need to do.

Clearly, the existence of this huge trade deficit and the problems it causes between our two countries is yet another selling tool that we need to use.

And with that, I would like to expose myself to questions rather than talk further.

[The prepared statement of Mr. Smart follows:]

TESTIMONY BEFORE THE SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY

ON

AUTOMOTIVE PARTS TRADE WITH JAPAN

BRUCE SMART
UNDER SECRETARY OF COMMERCE
FOR INTERNATIONAL TRADE

SEPTEMBER 25, 1986

Thank you Mr. Chairman, and Members of the Committee, for this opportunity to discuss automotive parts trade with Japan.

Auto parts is an important commercial area on which the Administration will focus in a new round of MOSS talks during the next year. There are approximately 2,500 U.S. auto parts companies, employing approximately 650,000 workers and shipping products worth over $86 billion in 1985. These companies face a strong and growing challenge from Japanese parts producers. Many U.S. parts companies have taken up the challenge and are proving that U.S. companies do produce high quality, competitively priced parts. Others have not done so well.

The primary objective of the "Transportation Machinery" MOSS talks is to ensure that competitive U.S. auto parts suppliers gain access to Japanese auto companies' original equipment and aftermarket business worldwide. Because the parts market for Japanese-brand vehicles is the segment of the world auto parts market expected to expand the most rapidly in the future, access is crucial for the future health of the U.S. industry.

Currently, the market for automotive parts in Japan is estimated at $50 billion, compared to $86 billion in the United States. U.S. auto parts companies supply less than one percent of the Japanese market as Japanese companies continue to favor traditional suppliers.

Additionally, Japanese vehicle manufacturers are now producing approximately 200,000 vehicles per year in the United States. Production is expected to grow to well over 1 million units by 1990. Japanese companies assembling cars in the United States have had a tendency to import parts from traditional suppliers in Japan rather than purchase from established U.S. parts manufacturers.

In the Transportation Machinery MOSS talks, we are seeking to open up trade relationships so that American firms can participate more fully.

The primary barriers to our auto parts sales are not governmental barriers, but rather are traditional private business relationships. Supplier associations are the formal manifestation of traditional private business relationships in Japan's auto industry. These associations are formed around a specific motor vehicle manufacturer. Members of a manufacturer's association are favored in purchasing arrangements. In return, most large first-tier suppliers have exclusive relationships with a particular vehicle manufacturer or a related group of vehicle manufacturers. These large suppliers have the major responsibility for developing and upgrading their own products with technical assistance from the motor vehicle manufacturers. Smaller parts companies are encouraged to work with the first-tier suppliers rather than directly with the motor vehicle manufacturer.

These relationships, which apply not only in Japan but also at the new Japanese vehicle assembly plants in the United States, have precluded many U.S. companies from participating in this huge and fast-growing market.

The MOSS approach, endorsed by the highest levels of the Japanese Government, will help us to address not only the traditional barriers at the borders, but business impediments, such as these relationships, within the Japanese economy. We also want to look at the effects of these relationships elsewhere in the world--whatever prevents full foreign participation in the market represented by Japanese vehicles. We will need to look at problems affecting the entire range of business activities--from getting goods into the country, to developing access for foreign suppliers at the design and engineering phase of the Japanese new vehicle planning process, to awareness of the impact of foreign parts manufacturing subsidiaries in the United States on the domestic industry, to regulations and distribution systems affecting the sale of replacement and repair parts.

While it is difficult for governments to affect private purchasing decisions of the Japanese auto industry, both the private sector and the government in Japan have a vested interest in demonstrating their willingness to address these difficult issues.

Private decision-making often affects parties outside the decision process. When private business decisions generate results that are as substantive and widespread as those in the automotive sector, the role of government is to encourage commercial decision-making on the basis of economic criteria alone. This role is especially important when these decisions have potentially significant adverse impacts on U.S. trade.

The MOSS talks are designed to improve market access in sectors where the United States is competitive and access to the Japanese market is limited. Thus, the MOSS approach is not constrained by the usual boundaries of trade talks. Under MOSS, we seek solutions that not only address the immediate problems at hand, but promote systemic changes as well. This approach is particularly important in the auto parts area, given the type of impediments involved.

In the automotive sector, the United States ran a deficit with Japan of $24 billion dollars in 1985. That was nearly 50 percent of our trade deficit with Japan. In auto parts trade alone, our direct deficit with Japan was $3 billion. The deficit was nearly $5 billion if imports through Foreign Trade Zones (FTZ) are included. The auto parts trade deficit for 1986 has continued at high levels, reaching a little over $1 billion for the first quarter.

Japanese motor vehicle manufacturers benefit considerably from the openness of the U.S. market, currently selling well over 2 million units per year.

The U.S. trade deficit with Japan in automotive parts has increased rapidly in recent years. In 1972, the auto parts trade deficit with Japan was only $209 million. By 1982, the deficit rose to $1.3 billion. It nearly doubled in the next two years, reaching $2.3 billion in 1984. At the same time, the U.S. global trade balance in auto parts worsened. In 1981, the United States had a trade surplus of $3.7 billion. The first time the United States experienced an overall trade deficit in this sector was in 1983: $314 million. The deficit grew rapidly, reaching nearly $2.8 billion in 1985. Of course, to the extent imports of Japanese parts by U.S. manufacturers has improved the cost competitiveness of U.S.-brand autos, this deficit has had a benefit to set against the impact on U.S. parts makers.

The 35 percent drop in the value of the dollar with respect to the yen from August 1985 to August 1986 will make U.S. auto parts more attractive to Japanese motor vehicle producers. The effect of the drop, however, is still unclear. It probably will not have a strong positive impact on the trade deficit in auto parts for several reasons.

First, in recent years, Japanese vehicle companies have operated with extremely high profit margins. As long as they prefer Japanese vendors, these companies will absorb the increased costs through reduced profits and higher prices, rather than switch to foreign sources.

Second, the Japanese auto companies are attempting to streamline business activities, reduce production costs and improve productivity to counteract yen appreciation. In many cases, the auto companies have expressed reluctance to switch to new suppliers because they feel less smooth deliveries and uncertain quality will raise their costs even further and interfere with the streamlining process.

What caused this reversal in the U.S. trade position? First, the influx of Japanese motor vehicles into the U.S. market led to the subsequent entry of Japanese parts for repair and maintenance of these vehicles. Second, U.S. motor vehicle manufacturers increased sourcing of foreign parts for their vehicle assembly operations. Third, Japanese vehicle assembly facilities in the United States have continued to obtain parts and stampings from their traditional suppliers in Japan. In addition, many manufacturing subsidiaries of Japanese parts producers, many of which followed the auto makers to the United States, continue to import components from Japan. Fourth, trade policies (such as foreign exchange restrictions and local content requirements) aggressively implemented by several significant trading partners, principally developing countries, have slowed the growth of U.S. automotive parts exports. Fifth, the international debt crisis has slowed growth in many of the traditional markets for U.S. parts exports, e.g. Latin America. And sixth, foreign demand for U.S. parts historically has depended on the size and age of the U.S.-built vehicle fleet in other countries. As U.S. vehicle exports declined between 1981 and 1983 and as U.S. assembly operations overseas have diversified their sources of supply for original equipment components, both U.S. replacement and original equipment parts exports also have declined.

The U.S. industry is in an extremely critical period, precipitated by the trade reversal. The resulting tension is affecting not only automotive trade, but the entire U.S.-Japan trade relationship, as demonstrated by the keen interest in this hearing. The tension can be ameliorated only if the U.S. parts industry believes it has, and in fact does have, fair access to the markets represented by Japanese vehicles. The MOSS talks can help achieve this access.

Another aspect of the U.S.-Japan relationship in auto parts trade is the effect of Japanese competition on domestic employment. Again, access to the parts market for Japanese vehicles is an important issue affecting domestic employment in the motor vehicle parts manufacturing sector.

Employment in the U.S. auto parts industry has decreased since the late 1970s. In 1978, total employment in the U.S. auto parts industry was approximately 758,900. With the onset of increased import competition after the 1979 oil crisis, employment steadily fell, reaching 521,800 in 1982. Employment recovered slightly rising to 652,800 in 1985 with the increase in motor vehicle sales, but has remained well below the peak employment of 1978. Some of this decline was undoubtedly due to the generally hard times faced by the whole U.S. auto industry from 1979 to 1982 in the United States. The increase in competition forced the U.S. industry to install labor saving capital equipment, resulting in a desirable improvement in productivity, but also lowering employment. These effects certainly were magnified by the concurrent increase in Japanese competition.

Increased Japanese competition affects U.S. employment in several ways. First, the substitution of imports for domestic products, both vehicles and parts, reduces manufacturing employment, not only directly, but through inter-industry effects on other upstream domestic suppliers of raw materials and components.

Second, because of Japanese auto makers' bias toward traditional suppliers, many Japanese auto parts manufacturers are establishing plants in the United States in order to produce for the new Japanese motor vehicle assembly facilities. This provides factory employment in the localities where the new plants are located, but some of the associated technical and management jobs will remain at the headquarters in Japan. I believe that the long term implications for U.S. competitiveness are disturbing.

I would like to conclude by briefly reviewing what happened last month at the first meeting of the Transportation Machinery MOSS. By accepting this sector as a MOSS topic, the Government of Japan has indicated its awareness of the importance of action that will reduce this trade imbalance. That, of course, is an important plus for us. The opening session of the Transportation Machinery MOSS was held on August 20. I chaired the U.S. delegation and MITI Vice Minister Kuroda led the Japanese delegation.
Our message was clear. The United States desires and expects to see competitive U.S. auto parts suppliers gain access to the Japanese original equipment (OEM) and aftermarket business in Japan, the United States and third markets.

The U.S. side stressed that U.S. parts suppliers are competitive in a large number of categories of components and accessories, and that great improvements in quality and reliability, coupled with price competitiveness, should have led to much greater opportunities than currently exist. We pointed out that using more U.S. suppliers would increase the quality and competitiveness of Japanese-brand cars.

The Japanese side was equally clear in its position. They believe this is a private sector, not a government matter. They emphasized that any problems result from structural differences between the automotive industries of the two countries. They stressed the need for U.S. parts companies to meet Japanese vehicle industry expectations in the areas of engineering innovation, lower costs, just-in-time inventory procedures, quality levels, and responsibility for defective parts, and questioned whether we could. They believe that U.S. vehicle manufacturers are adopting many of the same techniques currently used by Japanese vehicle makers and that U.S. parts suppliers must adapt to these procedures to be successful. They further claimed that the U.S. vehicle companies' increased use of foreign components was evidence of the competitive deficiencies of the U.S. parts industry.

The first meeting of the working group on auto parts of the Transportation Machinery MOSS talks was held on August 22. However, despite Japanese concerns, at this meeting we started to develop a specific work plan through which both sides can raise problems faced by their respective industries. We also started work on a monitoring system and received commitment from MITI to support certain trade facilitation activities. This work plan demonstrates that both sides are committed to progress and to negotiations based on facts, not misperceptions.

While we have made a constructive start toward resolving problems facing the U.S. auto parts industry, we should all be aware that we are dealing with a deeply entrenched system of private business relationships. Though these relationships have inhibited business between U.S. and Japanese companies, they are not necessarily illegal under any domestic or international laws. Thus, they will not give way to unilateral U.S trade action unless we find cases such as dumping or antitrust violations.

Our hope for success lies in persuading the Japanese Government and the Japanese auto industry that broadening their purchasing practices is in their own self-interest. Since I am convinced this is indeed the case, I am optimistic we will obtain some results, but none of us should be deluded into thinking the task ahead will be an easy one.

Senator QUAYLE. Thank you very much, Mr. Secretary.

Let me pick up on the last point you made. You said that there is a perception that the Japanese market is closed and unfair. Do you believe that to be fact?

Mr. SMART. I am certain that in a variety of areas, if we go beyond auto parts and speak broadly about the trade relations with the United States, there are clearly areas in which, for several reasons, both governmental and traditional practice, it is much more difficult for American suppliers to sell in Japan than it is for Japanese suppliers to sell in the reasonably open American market.

Senator QUAYLE. What about the specific question of the American auto suppliers and auto parts, the issue of quality and the issue of cost. Are we, from your analysis of the situation, competitive with the Japanese suppliers in this area?

Mr. SMART. I think in an industry as diverse as what we call auto parts, there are clearly areas in which we are probably highly competitive or superior to the Japanese suppliers, and there are probably some other areas in which, generally speaking, they are superior to us. I do not think you could categorize it as totally one way or the other. But it is in those areas where we are either competitive or superior that we are not getting our share of the market and where we need to concentrate first.

Senator QUAYLE. OK. Where we are competitive, it is your opinion that we are not getting satisfactory access to the Japanese market; is that correct?

Mr. SMART. When we have only 1 percent of their market, I think it is pretty demonstrable that we are not.

Senator QUAYLE. One percent of their market in Japan.

Mr. SMART. In Japan.

Senator QUAYLE. And in looking at that situation speaks to the fact that the Japanese do have a closed market to some of our superior products?

Mr. SMART. I would conclude that their market is closed from what I hear, and what I see in the statistics, and what I believe to be the case in the family of suppliers that has grown up around each of these Japanese auto companies.

Senator QUAYLE. Now, what about the situation of Japanese companies, plants, that are coming to the United States? We welcome them making the investment. But what about access to that market as well, as far as our U.S. auto parts suppliers are concerned?

Mr. SMART. I suspect that that phenomenon is a very logical outgrowth, in the Japanese mind, of their desire to do business with companies that they are already familiar with, that have performed responsibly for them, and the difficulty they have in considering a change of that situation.

I would surely like to see an expansion of that family of companies to include competitive American firms in the American market. And one of our objectives is going to be to open up the thinking so that if you feel you need an adjacent or tightly linked plant to supply you with something or other at your new Japanese assembly area, that American firms are considered on an equal basis and on their merits with Japanese firms for that role.

Senator Quayle. Can we be competitive? You say "if" we can be competitive. Can we? Are we competitive? I guess that is the real question. If we are not competitive in quality and cost, then I think that I may not have an argument. But from my review of the situation and the people I talk to—we are able to compete. It is a diversified industry. But there are a lot of people that are very competitive.

Mr. Smart. Yes. When I say "if," I mean if we are talking about an area where we can be competitive, which is many, many areas, but perhaps not all in the components in automobiles. After all, the Japanese point out, and rightly so, that some American manufacturers are sourcing some parts overseas, either because there is some technology or quality that is superior to the American supplier or some cost factor that is superior to the American supplier. That does not mean that the American suppliers are uniformly bad; it means that in some isolated instances, there is an advantage to going overseas. Clearly, American companies buy a great deal from American parts suppliers, having an open market and an open mind, and we would think that in the United States, the Japanese might see it the same way.

Senator Quayle. If United States manufacturers cannot get access to the parts market in Japan—we only have 1 percent of that market—doesn't it make it rather difficult for us to access or have a fair shake at the market for parts over here as well? I mean, our problem rests in trying to get access over there?

Mr. Smart. One area where I think we can be helpful is to identify for each category of product the location of the Japanese purchasing decision in each company.

In some cases, the purchasing decision starts with the initial design of a new car, and those vendors who contributed innovative ideas to that new car back 4 or 5 years before it hits the showroom are going to be favored in participating in the commercial production. In that instance we need to work with those Japanese companies at that time, in the engineering department or the design department, which is probably located in Japan. On the other hand, there are probably other components or accessories which will be bought locally at the Japanese factory in the United States, and there we need to work with the purchasing decisionmakers at that location.

So I believe it is hard to say exactly where the decision is made, but it is important to know where it is made, when it is made, and to sell where the customer is buying; not to assume that you can sell something at the American assembly plant when the decision to buy is actually made in Japan.

Senator Quayle. And we do not really know where such decisions are made right now; is that correct?

Mr. Smart. I do not believe—maybe some of our supplying companies do—but generally speaking, I think that is something that is not fully profiled product by product, company by company.

In that connection, I might point out that the Department of Commerce has agreed to jointly fund with industry, an auto parts trade office in Tokyo, available to all of the auto parts suppliers to help them understand the mechanism of purchasing in Japanese companies and to guide them so that each company will not have to reinvent the wheel in this respect.

Senator QUAYLE. Do you have any estimates on the growth potential of the auto parts industry and the industry in this country in the next decade or two?

Mr. SMART. We can get you the precise figures, but it is our estimate that we will go from making a couple of hundred thousand Japanese-brand cars in the United States this year to something like 1½ million in the year 1990; and that the growth of the aftermarket for cars running on American roads will be essentially all for Japanese-brand cars as their numbers in the fleet increase and the numbers of American cars in the fleet remain rather constant.

Senator QUAYLE. What about the growth of investment and Japanese auto parts plants coming to this country? Do you have any idea of what that growth pattern is going to be?

Mr. SMART. I am sure that it is increasing. My associates may have some statistics; just a minute. [Conferring with staff.]

Mr. Watkins tells me that there are approximately 40 such plants here now, and that the estimate is that in the next several years, that will grow to in the hundreds.

Senator QUAYLE. In the hundreds. So, that is quite an exponential growth.

Mr. SMART. It is a very substantial growth, and it is very important that as a part of the MOSS auto talks we give American companies an opportunity to compete to be part of that inner circle, rather than have it solely go to Japanese companies.

Senator QUAYLE. Let's assume those assumptions are correct—and I happen to believe they are—doesn't that basically demonstrate that Japanese companies have already made sourcing decisions and that United States domestic auto suppliers are not going to be competitive? I mean, if they are going to increase investment to that extent, they are basically saying that we simply are not going to enjoy access. And I think that this closed market environment is one of the basic problems that we must address.

Mr. SMART. There is no question that the closed market, the so-called kieretsu philosophy is the basic thing that we must attack and persuade the Japanese in one way or another that it is in their interest to broaden their supply base.

Senator QUAYLE. Basic logic certainly supports that contention. Especially if you have that kind of a growth pattern, where, I might add, a very competitive and, as a matter of fact, an overcapacity exists, to some extent, in the area of auto parts. There is no shortage of supply. There is a supply out there. And to see those kinds of numbers indicates to me this kieretsu relationship is something that is there, it is something that is real, and it is something, in my opinion, that we are going to have to deal with, hopefully, voluntarily, hopefully in a negotiated settlement; but if not voluntarily, then there are obviously other options available.

Senator Simon.

Senator SIMON. Thank you, Mr. Chairman.

I want to commend you for holding the hearings and providing leadership in this area. And let me also commend Congressman Sandy Levin and Congresswoman Marcy Kaptur for doing the same over on the House side.

And let me apologize to the witnesses. We have a markup in the Judiciary Committee right now. Senator Al Gore told me to particularly pay attention to Marvin Runyon's testimony. So whoever you are out there, if Marvin Runyon is out there, I will read your testimony. He is back there. All right.

Senator QUAYLE. Yes, you may not like it, though.

Senator SIMON. Oh. OK.

Now, let me, Mr. Secretary, go not to the specifics, but to overall what we are doing, because I think the overall affects not only auto parts, but a lot of other things.

You said that we are going to have to persuade the Japanese to modify their policies. One of the things, as you start digging into this trade area, it is a little bit like grabbing onto a balloon, where you pull down here, and it just starts mushrooming everywhere else. One of the things that really hits you is how we have a scattered responsibility in this area of trade. You are representing the Department of Commerce; we have my friend Clayton Yeutter as the Trade Representative; we have the Department of State involved; one estimate is we have 18 different agencies or entities involved, and I do not know whether that is accurate or not.

Our colleague Senator Fritz Hollings says we ought to have a national trade council just as we have a National Security Council, to coordinate these things. My own impression is that while part of our trade difficulties are caused by our deficit in this country and the overvalued dollar, part of it is caused simply by our educational system. And we are not selling. We are not learning foreign languages, we are not doing the basics that you have to do to sell.

But part of it is we still have not awakened to the year 1986. We are still living in the immediate post-World War II era when we were the economic giant and the rest of the world was very poor.

As you look at this—and I recognize you may not be able to speak for the administration, and I am just asking Bruce Smart to speak for Bruce Smart—what should we be doing in the area of trade to strengthen and toughen our stand so that we—let me give you a very practical example. When the President announced we were not going to have a quota on Japanese cars, and we became at least temporarily the only automobile market in the world not to have a quota on Japanese cars, I called a friend over in the White House and I said, "What did we get in exchange" figuring we sold them computers or beef or something. And when I said, "What did we get in exchange?" he said, "Good will."

Now, I like good will. My banker is very unimpressed by good will.

Mr. SMART. Good will is carried at $1 on your balance sheet, Senator.

Senator SIMON. Yes; what do we do? I want to maintain good relations with Japan. I want to maintain good relations with West Germany and Canada and everyone else. But I think they recognize that we are going to have to be a little tougher, a little firmer than we have been.

What do we do overall to toughen and firm up our policy?

Mr. SMART. Let me answer your questions in a series, here. First of all, as Bruce Smart I believe, and this is the administration's consensus generally speaking, that your statements of the problem, the broad problem, are ones that I would thoroughly agree with. We are talking now in that specific area that might be called trade unfairness, which is certainly one of the most emotional elements of this issue and the one that could easily lead to protectionist or other unfavorable legislation from the point of view of the world economy and certainly of the Japanese, even though it may not be the largest quantitative factor in the trade deficit.

As for what mechanism in the administration we have or should have, as you know, there was discussion of having a department of international trade and industry. Arguments can be made in favor of that structure. I do not believe we are likely to have that structure in the next year or so. Instead of it, we have a sub-Cabinet Trade Policy Review Group which is interagency, including most of those agencies that are intimately involved with this problem. That group reports through the U.S. Trade Representative to the Economic Policy Council, which is that part of the Cabinet made up of those executive departments that have interest in trade, and through that, we come to a coordinated policy which is decided on by the Cabinet officers or, if necessary, forwarded to the President for decision.

I have found this structure in my time here to be a reasonably effective method of handling these problems, and I think we are coordinating pretty well in the trade area though, frankly, as a former corporate officer, if I was designing it from scratch with no past history or no past vested interests or no past turf, I might come up with a different structure. But I think given the situation we are in, that is a pretty good way of working, and I have spent a lot of time trying to be a good team player in that interagency process, and I believe it has worked well.

As far as the question of what do we do, getting return for our concessions other than good will, I think it is true that in international negotiations, you need to have a certain quid pro quo, and I believe that the situation with the Japanese has to take into account the fact that this trade deficit cannot persist, that the feeling of unfairness cannot persist, and that if they do not take steps to reduce the problems, somebody is going to take steps of a legislative or trade action nature that will be very uncomfortable to them as a result. And so we need in all of our discussions with them to keep front and center the fact that there is a great, big problem here that could affect the overall geopolitical relations with the second-largest market economy in the world and a very important ally; that we need to have some change. I believe the Prime Minister of Japan understands that fully. I think the senior ministers are understanding it more fully than perhaps they did a year ago. And our job is to make sure that, using that situation and that changing view in Japan, we move as quickly as we can to get individual situations cleaned up. And this, of course, is one of them.

Senator SIMON. If I can just ask one further question, I think your description of the situation and where we are is reasonably accurate. I think the danger is the pendulum is going to swing from one extreme over to another extreme. That protectionism is out there. You can cut it——

Mr. SMART. Very strong.

Senator **Simon** [continuing]. In Indiana and Illinois, and it is very tough to tell a woman in Murphysboro, IL, "You lost your job in the shoe factory in the national interest." At least, I am not a good enough politician to do it effectively, I will tell you that.

And so if we do not come with some sensible policies, and our friends in Japan and Canada and elsewhere have to understand that, then we are going to end up with a meat ax kind of approach that is not going to be good.

Let me ask you to do this. If you could reflect on this and send me a letter, with a copy to the committee that we can insert into the record, telling me where you think we ought to go in this area of trade, how we ought to structure this. You mentioned your corporate background. If you were just to start with a clean slate—and I recognize we cannot do that—but what should we be doing to tighten this thing up? When you say this is "reasonably effective," it also strikes me as an awfully cumbersome kind of a procedure.

I would be interested in you reflecting on that and sending me a letter.

Mr. **Smart**. All right, sir.

Senator **Simon**. I thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Senator **Quayle**. Thank you, Senator Simon.

Mr. Secretary, thank you very much. Good luck in your second round of talks, and as they say, bring home the bacon.

Mr. **Smart**. We will do our best.

Thank you.

Senator **Quayle**. We look forward to it.

Thank you very much.

Senator **Quayle**. Our first panel will be Mr. Raftery, Mr. Mitchell, and Mr. Grote.

Gentlemen, welcome. In the interest of time, I have got a little timer up here. Red means stop; the green light means go for 5 minutes. We will try to limit your opening statements to 5 minutes, and once the red light goes on, try to finish in the next few seconds, so we can have some time for questions, because we do have four panels that we would like to hear from during the next couple of hours.

Our first witness is Mr. William Raftery, president of the Motor & Equipment Manufacturers Association.

Mr. Raftery, welcome.

STATEMENT OF WILLIAM A. RAFTERY, PRESIDENT, MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION, WASHINGTON, DC; GERALD B. MITCHELL, CHAIRMAN, CHIEF EXECUTIVE OFFICER, AND PRESIDENT, DANA CORP., TOLEDO, OH; AND WALTER F. GROTE, JR., PRESIDENT, GROTE MANUFACTURING CO., MADISON, IN

Mr. **Raftery**. Senator Quayle, members of the committee, on behalf of Mr. Mitchell, Mr. Grote, myself, and other industry representatives who appear before you today, I want to express our sincerest thanks and appreciation.

MEMA is an association of the suppliers to both original equipment and replacement parts in the aftermarket, with a history that dates back to 1904. These manufacturers sell the products for us in, on, or for the servicing of motor vehicles.

We have been involved in international trade issues for over 80 years. Our first international trade division was formed over 65 years ago, and as I read the history of MEMA, I found out that Alfred P. Sloan, who later became chairman of General Motors, and C.E. Thompson, who was the founder of Thompson Products which later became TRW, and a fellow by the name of Schuster, who was on our staff then, who later formed Simon & Shuster, created our international trade division.

With regard to the Japanese situation, as early as 1960, we held our first seminar on international trade as it related to the Japanese market and Japanese vehicles. We led the automotive parts segment of the U.S. Department of Commerce trade mission to Japan in 1978, and in 1980, we supported a return mission to the United States, again sponsored by Commerce. Earlier this year, we organized our own trade mission of Japanese vehicle manufacturers to meet with potential suppliers in conjunction with one of our international trade events.

To further establish our commitment to open the market for United States motor vehicle parts in the Japanese vehicle market and worldwide, MEMA has an application currently pending with the Department of Commerce for a trade adjustment assistance grant in order to open an office in Tokyo. We would hope that by opening a United States motor vehicle industry parts office there, it would serve as an additional signal of commitment on the part of United States manufacturers that we intend and pledge to be long term and serious participants in the Japanese market.

I think when they speak of patience, we have shown patience. The fact that we have been involved in trying to develop a meaningful business relationship with the Japanese since 1960 is an indication of patience. We have built personal relationships with executives of Japanese companies both in Japan and here in the United States, and yet we see a lack of progress. And so we cannot help but feel that there is something in the system that prevents this.

The motor vehicle parts market, both original equipment and replacement or service parts, for Japanese cars has all but been closed to American manufacturers. The dollar-yen exchange rates over the past several years have been a factor, but we feel that strong and sometimes interlocking relationships between Japanese vehicle manufacturers and their suppliers is the root cause.

Since 1981, United States motor vehicle parts exports to Japan have increased by only about $85 million. Japan bought $203 million in parts in 1985, and that is a far cry from what they anticipated doing when they said they were opening up the market over 6 years ago.

In 1968, the Japanese Government announced automotive import liberalization policies to "increase considerably the annual quotas for imports of engines and parts." The Japanese Government further stated that it would receive favorably any investment proposal for the assembly of these parts.

However, U.S. sales have hardly passed the token stage since that time. And we can go back into our documentation from our earlier trade missions, their reports of Japanese statements, and every one of those continues to say they are trying to do business, they are opening the market, but nothing happens.

Those few United States companies that currently do sell Japanese—and there are some—have spent from 5 to 10 years of unwavering commitment and tireless negotiation to barely crack the market. To achieve any significant further market penetration will require a continued commitment on the part of industry, coupled with constant U.S. Government pressure through such avenues as the current MOSS talks, which we applaud.

Senator **Quayle**. Mr. Raftery, if I could interrupt you, your 5 minutes is up. If you could just wrap it up, your entire statement will be put in the record, but we are going to have to proceed; otherwise, we will not be able to conclude.

Mr. **Raftery**. I think one of the keys was Under Secretary Smart's comment about a $5 billion deficit. That is somewhat higher than you usually hear. But he has factored into that the Free Trade Zone factor, which apparently raises the deficit on automotive parts from $3 billion-plus to $5 billion. That is a factor. We see that increasing geometrically in the coming years, because of so many Japanese vehicles registering in the United States, reaching the age of what we call service maturity. They will be approaching a 25 to 28 percent share of market soon. They will have a tremendous number of vehicles registered in the States, 3 to 8 years old, which is the age of service maturity. We feel that because of that, there is a tremendous opportunity in the replacement parts market which our vehicle manufacturer suppliers cannot get to because the OE service sales divisions in the United States of Japanese manufacturers cannot buy United States replacement parts on their own.

I think those are the basic issues that we would like to raise, sir.

Thank you very much.

[The prepared statement of Mr. Raftery follows:]

Statement of

William A. Raftery

President

Motor & Equipment Manufacturers Association

222 Cedar Lane

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Before the

United States Senate

Labor and Human Resources Subcommittee

on Employment and Productivity

September 25, 1986

Statement of William A. Raftery before the U.S. Senate
Labor and Human Resources Subcommittee on Employment and
Productivity. September 25, 1986

Good morning. My name is William A. Raftery, and I am president of the Motor & Equipment Manufacturers Association.

Established in 1904, the Motor & Equipment Manufacturers Association has been a significant part of the U.S. motor vehicle industry since its inception. Throughout the course of its 83-year history, MEMA has provided services and programs to meet the needs of American motor vehicle product manufacturers in a continuously changing marketplace. Representing exclusively U.S. manufacturers of motor vehicle parts, equipment and accessories, MEMA currently serves some 750 companies through a variety of programs, both commercial and analytical.

Since it only serves manufacturers, MEMA does not have a bias toward any particular segment of the vast array of vehicle product markets. Providing parts, accessories and equipment to the entire automotive industry, the manufacturers comprising MEMA supply both the Original Equipment (OE) and the replacement parts (Aftermarket) markets.

MEMA's OE supplier members manufacture the parts used in the production of all types of vehicles: passenger cars, trucks, buses, construction equipment and other heavy-duty vehicles, thus forming the foundation of the U.S. motor vehicle industry. Aftermarket suppliers produce the parts and service equipment necessary to keep these vehicles in operation.

MEMA's marketing and economic analyses, which have been refined over the years, are unrivaled in the industry. MEMA gathers market and product information through research projects at all levels of the marketplace: manufacturer, distributor, retailer and consumer.

MEMA has been deeply involved in international trade issues for more than 80 years. The Association's Trade Division was formed nearly 65 years ago. A MEMA export seminar examined business with Japan as early as 1960. MEMA supported a private industry mission to Japan in April of 1965.

The Association led the auto parts segment of a U.S. Department of Commerce trade mission to Japan in October 1978; and in 1980, MEMA supported a return mission to the U.S., again sponsored by the Commerce Department. And, earlier this year, we organized our own trade mission of Japanese vehicle manufacturers to meet with potential American suppliers during our annual trade show in Chicago.

To further establish our committment to open the market for U.S. motor vehicle parts in Japan, and worldwide, MEMA has an application currently pending with the Department of Commerce for a Trade Adjustment Assistance grant in order to open an office in Tokyo. We would hope that by opening a U.S. motor vehicle industry parts office in Japan, it would signal a commit~~t~~ment on the part of U.S. manufacturers that we intend to be long-term and serious participants in the Japanese market, and wherever Japanese cars are built and sold.

This long history of trade involvement on behalf of U.S. motor vehicle parts manufacturers, including a quarter of a century spent on Japanese related issues, demonstrates our industry leadership and a qualified prospective on current trade issues.

I. Access to the Japanese Market by U.S. Motor-Vehicle Parts Manufacturers

The motor vehicle parts market, both original equipment and replacement or service parts, for Japanese cars have been all but closed to American manufacturers. The dollar/yen exchange rates over the past several years has been a factor, but MEMA feels the strong, and sometimes interlocking, relationships between the Japanese vehicle manufacturers and their suppliers is the root cause. It is like a high stakes poker game for which the Japanese provide marked decks.

Since 1981, U.S. motor-vehicle parts export to Japan have increased by only $84.6 million. Japan bought $203.6 million in U.S. parts during 1985, a far cry from the $300 million target set after the 1980 Japanese mission to this country. It is a situation that has existed more or less unchanged for nearly 20 years.

In 1968, the Japanese government announced automotive import liberalization policies to, "increase considerably the annual quotas for (imports of) engines and parts..." The Japanese government further stated that it would "receive favorably any investment proposal for the assembly of these parts." While quotas and tariffs have, in fact, been removed; U.S. sales have hardly passed the token stage.

Those few U.S. companies that currently do sell the Japanese have spent from five to ten years of unwavering committment and tireless negotiation to barely crack the surface of the Japanese market. To achieve any significant market penetration in Japan will require a continued commit~~t~~ment on the part of industry, coupled with constant U.S. government pressure through such avenues as the current MOSS talks, which we applaud.

II. Japanese Access to the U.S. Market

The rise of Japanese product sales in the United States is well-documented. The Japanese vehicle parts companies' experiences in the U.S. have been the opposite of American history in Japan. Since 1981, Japanese parts exports to the United States have increased by $1.6 billion, this increase occurring during the period of the Voluntary Restraint Agreements.

In 1985, Japan exported $3.5 billion in motor-vehicle parts. This trend will increase dramatically through the end of the decade as the vehicle production of Honda, Nissan, and NUMMI is joined by Mazda, Toyota, Fuji/Isuzu, and Diamond Star.

Moreover, the heavy-duty vehicle market has new competition from Hino and Nissan Diesel as well as ownership changes of U.S. companies such that Mack, Freightliner and GMC are controlled respectively by French, West German and Swedish firms. The net employment effect on the industry is reflected in U.S. Department of Commerce statistics for Motor Vehicle Parts and Accessories (Sic 3714); In 1978, total employment stood at 476,000 workers; in 1986, the forecast estimates 381,000, a 20 percent decline.

III. Japanese Automotive Companies in the U.S.

As I previously noted, nearly all of the Japanese car manufacturers have announced plans for production ventures in the United States. These manufacturers have encouraged their larger suppliers to do the same. With the yen now close to 150, the Japanese parts industry must balance domestic production with foreign manufacturing facilities in order to counter its declining export competitiveness.

This shift in location of production has been aided by the fact that U.S. supplier industry wage rates are now slightly below those of Japan.

Further, state governments, eager for new manufacturing investment, have adopted policies to encourage these companies. To date, 50 Japanese parts supplier ventures have been announced. Of these, 34 are wholly owned by Japanese interests; 5 more are Japanese majority owned; 7 are 50-50 ventures with U.S. firms; and 2 are American-controlled. Of the remaining 2 ventures, one is jointly controlled by Japanese and Canadian companies and other other is West German-controlled.

By state, 9 are located in Ohio, 8 in Michigan, 6 each in Tennessee and California, 4 in Kentucky, 3 in Indiana, 2 each in Pennsylvania, Delaware, and Illinois, and Texas, and 1 each in New York, Georgia, Missouri and Nebraska.

Interestingly, negotiations concerning 6 other investments suggest joint ventures with U.S. companies will result. Ultimately, MEMA would hope to see Japanese parts manufacturers interested in U.S. production seeking to cooperate with existing American manufacturers. The introduction of a large number of wholly owned Japanese competitors will lead to substantially increased manufacturing overcapacity, employment losses to U.S. firms, and a major upheaval of the domestic vehicle parts manufacturing industry.

IV. — Access to Japanese Vehicle Companies in the U.S.

Japanese vehicles currently account for about 19 percent of the vehicles in use in the United States. The great majority of these vehicles are under 8 years of age representing the highest replacement parts consumption categories.

Accorcing to MEMA's Consumer Car Maintenance study, a large percentage of these cars are serviced through the new car dealer network. U.S. parts manufacturers have had little success in selling automotive products into this OE service system. The U.S. dealer network looks to Japan for guidance. The Japanese vehicle manufacturers have stated that American manufacturers need to supply OE parts to obtain the service sales. As we have noted earlier, the prospects for substantial sales increases for U.S. goods in Japan do not appear bright.

Acknowledging the advantages of Japanese parts suppliers in Japan, many U.S. manufacturers have focused their attention on supplying OE to Japanese assembly lines in the U.S. Again, the U.S. companies have been directed to the parent company in Japan.

The Japanese vehicle manufacturers have made some purchases of American products, but these purchases represent little or no potential for replacement or service parts sales. In fact, major subassemblies, such as engines are still imported from Japan as a unit. And, as anyone who owns or drives a car well knows, the major area for regular vehicle service is with the engine. Thus, this practice by the Japanese OE's protects the major segment of the service parts sales for their traditional homegrown suppliers.

MEMA is pleased by Honda America Manufacturing's decision to build engines in the United States. We are cautiously optimistic that actions such as this will lead to increased use of American auto parts in both the vehicle assembly and in their dealer service network. However, if Honda encourages its traditional suppliers to locate in the U.S. and that effort is supported by economic incentives from the state of Ohio or localities nearby to Marysville, without similiar encouragement and incentives to competing U.S. manufacturers, than we may well be contributing to the demise of our own domestic industries.

V. Summary

At present, the U.S. automotive and truck market is undergoing a period of tremendous change. In fact, the nature of the world automotive production is being fundamentally altered. It is the sincere hope of MEMA that these challenges will provide new opportunities for our industry, rather than result in increased frictions between the U.S. and Japanese industries.

With this thought in mind, I would like to extend my appreciation, as well as that of MEMA's members, and all U.S. motor vehicle parts manufacturers, for your interest and leadership, Senator Quayle, in addressing the trade problems facing our industry.

Selling our products is the industry's job, and we must continue a full court press in that direction, but we also need government to provide support and pressure to open the doors of trade with the Japanese by insuring that the playing field is level. Current efforts such as the MOSS talks can be immeasurably useful in that direction. At the same time, I would urge that you and your collegues in the U.S. Senate and House of Representatives continue your interest in and oversight of developments. Thus, through a team effort, we can begin to realize victory in the future.

We are working closely with the Department of Commerce and other federal agencies involved in our industry's trade issues. We also are ready to work with you, and other members of Congress as well.

I would be happy to respond to your questions. Thank you.

Senator QUAYLE. Thank you very much, Mr. Raftery.

Our next witness will be Mr. Gerald Mitchell. Mr. Mitchell is the chief executive officer of Dana Corp. in Toledo, which does a lot of very good, productive, useful business in northeast Indiana in particular. I have known Dana over the years, not only in the House but in the Senate as well.

Welcome, and proceed at your pleasure.

Mr. MITCHELL. Thank you.

My name is Gerald Mitchell. I am the chairman and chief executive officer of the Dana Corp. I want to thank you for the opportunity to be here today and thank you for holding the hearing.

The automotive industry has been the center of United States-Japanese trade talks for a long time. This opportunity to expand this discussion to focus on the automotive parts market—and I would like to focus specifically on our domestic supplier market—is long overdue.

Senator Quayle, you know the importance of this industry, that 15 percent of your Indiana work force is wrapped up in this industry. I hope you will continue to do all you can to encourage a public focus on the automotive parts industry and on our problems as this market gets more competitive.

Dana Corp. is one of the largest independent suppliers of power transmission components to the global vehicular and industry markets. We employ about 27,000 people in 33 States in the United States and a total of 38,000 people in 26 countries worldwide. Our annual sales exceed $3.75 billion.

So we are a global company, and since our markets are global, we very clearly understand that we must be able to compete globally if we are to survive.

Our people are working hard to do what these global competitive markets require. Dana has led the U.S. supplier industry by placing assembly facilities near our customers to provide delivery on a just-in-time basis. As we sit here today, we have about 30 of these small, flexible, regional facilities giving just-in-time delivery.

All our facilities have statistical process control in some form. The payoff has been consistent and continuous improvement in product quality, and we have dozens of quality awards from customers that our various plants have won.

Several years ago, we undertook the largest capital spending program in our history—more than double what we had spent in any other year in our history. We are trying to make our products No. 1 in the world in quality, price, and delivery. We have strengthened and added to our research and development efforts. As a result, we have had some success in exporting components to Japan for incorporation into Japanese trucks. At this point it is modest, but the volume is growing.

I cite this history only to illustrate that Dana is responding vigorously to the needs of the global market. Despite the efforts of our people and our commitments of capital, we have been unable to avoid some layoffs, plant downsizing, and some plant closings. Our markets are changing, and we expect them to continue to change. Our role is to adapt.

If I could just highlight a few of these changes. In the domestic auto parts industry, shipments in constant dollars have decreased by over $6 billion since 1978. I think that is the number you were looking for a minute ago. Employment has declined by over 100,000 people during the same period. In addition, until 1982, the supplier industry as a whole exported more than it imported to the United States. But that balance, that was a positive $2 to $3 billion back in 1982 is now a negative $3 to $4 billion in 1985.

As a result of the reduction in the size of the domestic supplier market for parts and the growing presence of imported parts in that market, it is obvious that we face a dramatic overcapacity situation which you mentioned earlier. In fact, this is going to get worse. The 1985 Arthur Andersen study of the U.S. automotive parts industry executives concluded that the number of U.S. parts suppliers will probably shrink by 10 percent by 1990 and by 20 percent by 1995. During this same period, the value of foreign-sourced parts and vehicles assembled in the United States will increase, and the share of the United States market held by foreign suppliers is projected to grow at a rate three times as fast as the growth of the market.

The most significant impact in the future of our market is just beginning to be widely recognized. It is the role of the Japanese suppliers based in the United States. Since 1979, 30 Japanese parts manufacturers have established plants in the United States markets. With Japanese vehicle manufacturers planning to invest more than $4 billion in North America, we believe from 300 to 800 additional Japanese suppliers are expected to follow them to the United States, worsening the excess capacity situation that I mentioned earlier.

These new suppliers will be unlikely to view exports from the United States as an important priority.

We recognize that many of the Japanese vehicle manufacturers have relationships with parts suppliers which are based not only on price, quality and delivery, but also on tradition and commercial family relationships.

Dana, as a parts supplier, asks nothing more than to be judged on our ability to compete. If Japanese vehicle manufacturers in the United States favor their own suppliers because of these traditions, in effect excluding existing United States parts manufacturers as suppliers, thousands of additional jobs in an already hard-hit industry will be lost.

There is an appropriate role for the Government in this process. It is extremely important that the United States Government use the MOSS talks, this hearing, and any other appropriate forum to focus continued attention on the parts sourcing decisions of the Japanese vehicle manufacturers who are in the United States or who plan to come here.

This kind of attention will help assure that the existing U.S. supplier industry is viewed equitably on the basis of quality, price, and delivery of our products and not on the basis of traditional or commercial family relationships.

Legislated solutions like domestic content requirements will not help the domestic supplier industry. It will not help Dana people. It will hurt them, in my view. Content requirements and any attendant time constraints will assure an accelerated movement of offshore suppliers to the United States. This will not leave enough time for our existing domestic supplier industry to compete with Japanese parts suppliers for the Japanese auto and truck parts business.

Content requirements will also shelter inefficiencies and increased cost among domestic producers and result in the inability of the domestic industry to then compete globally. Such action on the part of the Government will not save jobs; it will accelerate job loss for the existing domestic parts suppliers.

From an industry standpoint, we urge the Japanese vehicle manufacturers to approach parts sourcing decisions on the basis of quality, price and delivery, and not to simply exclude United States suppliers from consideration because of their traditional relationships.

Nissan USA is a good example of the kind of relationship that we at Dana advocate. Dana successfully competed for Nissan's light truck driveshaft business at their Smyrna, TN plant. We worked hard for 3 years before Nissan chose us. Our Spicer driveshaft had to pass strict Nissan quality and engineering tests. And we made a multimillion-dollar commitment to Nissan by building a regional assembly center 30 miles from their plant to service them on a just-in-time basis.

We have the driveshaft business, but we know we have to work hard for anything else we will get. The point is, Nissan treated us fairly. They judged us on our quality, our price, and our delivery, and we made the same important commitment to them that we have made to other major domestic customers.

In summary, then, let me say that we know that domestic suppliers must be competitive in the global parts market if they are to survive—and we are committed to do that.

Our people are committed and working hard to be competitive, but their efforts will do little good if Japanese vehicle manufacturers will not consider us as parts suppliers on an objective and competitive basis.

The United States Government can provide an incentive for that kind of consideration by using the MOSS talks and other forums to focus continuing attention on the sourcing decisions made by Japanese vehicle manufacturers in this country.

Finally, the U.S. Government should not pass protectionist legislation like domestic content requirements. Content requirements will accelerate job loss in the existing domestic supplier industry.

Thank you for hearing my views.

[The prepared statement of Mr. Mitchell follows:]

DANA CORPORATE OFFICES

STATEMENT BY GERALD B. MITCHELL, CHAIRMAN, CHIEF EXECUTIVE OFFICER AND PRESIDENT OF DANA CORPORATION, BEFORE THE SENATE LABOR AND HUMAN RESOURCES SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY, SEPTEMBER 25, 1986

Good Morning. My name is Gerald B. Mitchell and I am Chairman and Chief Executive Officer of Dana Corporation. I want to thank you for the opportunity to appear today and I want to congratulate you, Senator Quayle, for holding this hearing.

The automotive industry has been the center of U.S.-Japanese trade talks for a long time. This opportunity to expand the discussion to focus on the automotive parts market --- specifically, our domestic supplier industry --- is long overdue. Senator Quayle, you know the importance of this industry --- 15 percent of Indiana's workforce is in automotive-related jobs. I hope you will continue to do all you can to encourage a public focus on the automotive parts industry as our markets become even more competitive.

Dana Corporation is one of the largest independent suppliers of power transmission components to the global vehicular and industrial markets. We employ 27,000 people in 33 states in the U.S. and a total of 38,000 people in 26 countries worldwide. Our annual sales are $3.75 billion.

We are a global company because our markets are global. We very clearly understand the need to compete globally in order to survive.

Our people are working hard to do what these global competitive markets require. Dana has pioneered in the U.S. supplier industry in placing assembly facilities near our customers to provide product delivery on a just-in-time basis. We have over thirty of these small, flexible, regional facilities now in operation.

DANA CORPORATION
P.O. BOX 1000 · TOLEDO, OHIO 43697 · TELEPHONE (419) 535-4500 · TELEX 286020

All Dana facilities now use statistical process control methods --- SPC --- in some form. The payoff has been consistent and continuous improvement in product quality. This is reflected in the dozens of quality awards from customers that our plants have won.

Several years ago we undertook the largest capital spend program in our history --- more than double our previous levels --- with the objective of making our products number one in the world in quality, low price and delivery. And we have strengthened and added to our research and development efforts. As a result, we have had some success in exporting components to Japan for incorporation into Japanese trucks. It's a modest volume of business, but it shows that it can be done.

I cite this history only to illustrate that Dana is responding vigorously to the needs of the global market.

Despite the efforts of our people and our commitments of capital, we have been unable to avoid layoffs, plant downsizing, and some plant closings. Our markets are changing and they will continue to change. We must adapt.

Let me highlight some of these changes:

In the domestic automotive parts industry, shipments in constant dollars have decreased by over $6.0 billion since 1978. Employment has declined by over 100,000 people during the same period. In addition, until 1982, the supplier industry as a whole exported more than it imported to the U.S. But that balance swung from a positive $2.7 billion in 1982 to a negative $3.7 billion in 1985.

As a result of the reduction in the size of the domestic supplier market for parts and the growing presence of imported parts in that market, it is obvious that we face a dramatic overcapacity situation which will not go away.

In fact it will get worse. The 1985 Arthur Anderson study of 450 U.S. Automotive and Parts Industry executives concluded that the number of U.S. parts suppliers will shrink by 10 percent by 1990 and by 20 percent by 1995. During this same period, the value of foreign sourced parts in vehicles assembled in the U.S. will increase, and the share of the U.S. market held by foreign suppliers is projected to grow at a rate three times as fast as the growth of the market.

The most significant impact in the future of our market is just beginning to be widely recognized. It is the role of Japanese suppliers based in the U.S. Since 1979, 30 Japanese parts manufacturers have established plants in the U.S. markets. With Japanese vehicle manufacturers planning to invest more than $4.0 billion in North America, from 300 to 800 additional Japanese suppliers are expected to follow them into the U.S., worsening the excess capacity situation I mentioned earlier. These new suppliers will be unlikely to stress exports as existing domestic suppliers will.

We recognize that many of the Japanese vehicle manufacturers have relationships with parts suppliers which are based not only on price, quality and delivery, but also on tradition and commercial family relationships.

Dana, as a parts supplier, asks nothing more than to be judged on our ability to compete. If Japanese vehicle manufacturers in the U.S. favor their own suppliers because of these traditions, in effect excluding U.S. parts manufacturers as suppliers, thousands of additional jobs in an already hard hit domestic supplier industry will be lost.

There is an appropriate role for the government in this process. It is extremely important that the U.S. government use the MOSS talks, this hearing, and any other appropriate forum, to focus continued attention on the parts sourcing decisions of the Japanese vehicle manufacturers who are in the U.S. or who plan to come here.

This kind of attention will help assure that the U.S. supplier industry is viewed equitably on the basis of the quality, price and delivery of our products and not on the basis of traditional or commercial family relationships.

Legislated solutions like domestic content requirements will not help the domestic supplier industry. It will not help our people --- it will hurt them. Content requirements will assure an accelerated movement of offshore suppliers to the U.S. This will not leave enough time for our existing domestic supplier industry to compete with Japanese parts suppliers for the Japanese auto and truck parts business. Content requirements will also shelter inefficiencies and increased cost among domestic producers and result in the inability of the domestic industry to compete globally. Such action on the part of government will not save jobs. It will accelerate job loss for existing domestic parts suppliers.

From an industry standpoint, we urge the Japanese vehicle manufacturers to approach parts sourcing decisions on the basis of quality, price and delivery and not to simply exclude U.S. suppliers from consideration because of traditional supplier relationships.

Nissan USA is a good example of the kind of relationship we advocate. Dana successfully competed for Nissan's light truck driveshaft business at their Smyrna, Tennessee plant. We worked hard for three years before Nissan chose us. Our Spicer driveshaft had to pass strict Nissan quality and engineering tests. And we made a multi-million dollar commitment to Nissan by building a regional assembly center 30 miles from their plant to service them on a just-in-time basis.

We have the driveshaft business but know we have to work hard for anything else we get. The point is, Nissan treated us fairly. They judged us on our quality, price and delivery; and we made the same important commitment to them that we have made to other major domestic customers.

In summary, let me say that we know that domestic suppliers must be competitive in the global parts market in order to survive --- we are committed to be just that.

Our people are committed and working hard to be competitive but their efforts will do little good if Japanese vehicle manufacturers won't consider us as a parts supplier on an objective and competitive basis.

The U.S. government can provide an incentive for that kind of consideration by using the MOSS talks and other forums to focus continuing attention on the sourcing decisions made by Japanese vehicle manufacturers in this country.

And finally the U.S. government should not pass protectionist legislation like domestic content requirements. Content requirements will accelerate job loss in the existing domestic supplier industry.

Thank you again for the opportunity to state our views.

Senator QUAYLE. Thank you very much, Mr. Mitchell.

Next, Mr. Walter Grote, who hails from the great city of Madison, IN, president of the Grote Manufacturing Co. there.

Welcome. Thank you for taking the time to come out and share your thoughts with us. Please proceed at your pleasure.

Mr. GROTE. Thank you. I appreciate very much having the opportunity to be here and to discuss some of these issues with you.

I have made a submission, and I am not going to go through all of the things that are there. I would say that it contains a lot about our company, its philosophy of doing business, and also the fact that we are a manufacturer of lighting and mirrors, primarily for the commercial vehicle market. We do have some passenger car business, but our efforts are mainly to the freightliners and people that make commercial vehicles.

I would like to talk a little bit about what is happening with the manufacturers of large trucks because I think it is indicative of what is happening in the country.

White, which is a manufacturer of trucks, is now owned by Volvo. Mack is owned by Renault. Freightliner is owned by Mercedes Benz. GMC is now owned by Volvo, 65 percent, and 35 percent by GM.

Then left in the industry is Ford, Navistar, Kenworth, and Peterbilt, both of which are owned by Paccar.

Imported into the country are Isino, Isuzu, and Vecco.

The change of ownership indicates that 50 percent of the producers in this country are now foreign owned, and that is a significant change from just a few years ago when it was 100-percent owned by Americans, and the industry was maybe a producer of 12.

It indicates to me that if we are going to be able to survive in the market or in the world, we are going to have to have access to world markets. We are going to have to have a product that is world class in quality and world class competitively.

We are presently doing work to see if we can compete in the European market with the proper products. We are doing some market research. And I think within the next few months, we will have a feeling as to what can be accomplished in Europe.

In Japan, starting in 1978, I went with the Department of Commerce trade mission and visited a number of the vehicle manufacturers. We buy lighting from Japan and import it into this country, and through that source, my brother, who is vice president of sales and marketing, made a trip to Japan and visited with the Japanese producers. And in addition to that, MEMA had programs where Japanese vehicle producers have visits here at trade shows, and we have had a number of visits with the Japanese. And we really have not been able to develop a rapport with the Japanese people so we know whether we have good quality, good pricing or good delivery. It takes a two-way communication of information and exchange of information for any suppplier-customer relationship, and we frankly have not been able to develop that.

There were some questions that were raised in regard to the American parts supplier, and I just thought that I would deal with those questions. These were raised by the Japanese.

The first question was: What role do U.S. auto parts manufacturers play in the research and design of new auto parts for motor vehicle manufacturers?

Are the parts manufacturers merely given the blueprints for the parts by the vehicle makers, or do they play an active role in developing the parts from the basic concepts provided by vehicle makers?

Grote's answer to that is: For commercial vehicles, Grote does the basic design work. We institute market research, and as a result of our analysis, design the completed product for our customers.

Normally, passenger car producers have given drawings that are completely detailed and request quotations on those parts. Grote has not participated in that business.

There have been some recent changes with the passenger car producers. We were solicited to design the high-mounted rear stop light for approximately one-third of the Ford Motor Co. business. It is my understanding that Ford had three outside suppliers as well as an in-house design team for the high-mounted stop light.

We are capable and desirous of doing design work with all that entails. We are not interested in being given blueprints and asked to quote unless the circumstances were most unusual.

What is the present situation regarding the introduction of the kanban, or just-in-time delivery system, by U.S. vehicle manufacturers? How have U.S. parts manufacturers adapted to the system?

The answer from Grote would be: The commercial vehicle industry is really not aware of kanban. There are wide fluctuations in demand that require a company such as ours to carry inventory in order to supply product at a time when our customers need it.

For the Ford high-mounted rear light business there has been a substantial change. Rather than wide fluctuations in schedules, there is a very minimal schedule change. We have been able to handle with ease the short-term production changes to schedules by Ford. We are shipping our high-mounted rear lights to Ford distribution centers, and they are taking care of distributing the product to their line.

Question 3: In the United States, where does the responsibility for defective auto parts rest? With the vehicle manufacturer or the auto parts manufacturer?

And the answer: With Grote Manufactauring Co., it would rest with the parts manufacturer, whether we were supplying something for the commercial vehicle market, our own design, or if we were producing to the vehicle maker's design. If the vehicle maker has designed a part incorrectly, it is our responsibility to tell him or refuse to do the job.

Question 5: What are the present auto parts purchase policies of U.S. vehicle manufacturers, and what changes have occurred in these policies; that is, just-in-time methods, long-term contracts, systems engineering ability? Why are some parts and components out-sourced?

The answer: There is no way for the commercial vehicle market to make flat statements in regards to the questions asked. Each manufacturer is doing different things. I do see a trend particularly with the truck-tractor manufacturers, to reduce the number of suppliers they have and look more toward one supplier and establishing a better relationship with him. They are looking for companies with in-house design capabilities that can supply a greater range of products of like characteristics. Grote is a company that would take full responsibility for not only the design, but the compliance with the appropriate Federal standards for our type of product.

The last question that was asked was: What is the impact on America of lost jobs in manufacturing?

My thoughts are that it is the manufacturing part of our economy where true wealth is made. As we add value to the product through labor or material, we are increasing the value of the part.

Service industries are just that: service. The need for the service industry is created by filling needs of the manufacturing segment. Without a manufacturing portion of America's economy, the service industry will sooner or later die.

It is in the manufacturing area that new technology is made. If a country wants to be in control of its own destiny, it must be able to raise capital, have technology, the trained work force and the will and desire to make things work.

Simply stated, as we lose jobs to overseas countries and foreigners are in control of our industrial base, we will become a Third World country.

Senator QUAYLE. Thank you very much, Mr. Grote.

[The prepared statement of Mr. Grote follows:]

UNITED STATES SENATE
LABOR AND HUMAN RESOURCES SUBCOMMITTE
ON EMPLOYMENT AND PRODUCTIVITY

BY

WALTER F. GROTE, JR.
PRESIDENT
THE GROTE MANUFACTURING COMPANY, INC.
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THE GROTE MANUFACTURING COMPANY

Good morning, I am Walter Grote, Jr., President of Grote Manufacturing Company. I appreciate very much having the opportunity to appear before the Senate Labor and Human Resources Subcommittee on Employment and Productivity to discuss the impact of trade in automotive parts and accessories between the United States and Japan, and the impact on domestic employment.

First of all, let me tell you a little bit about our company. We are headquartered in Madison, Indiana and have an additional location in Toronto, Canada. On the table in front of me are some of the parts which we manufacture. I have brought a turn signal switch, rear light, reflectors and mirror for a truck. Most of the parts which we make are designed and manufactured by us for commercial vehicles.

We at Grote believe we are the largest manufacturer of lights and mirrors for commercial vehicles in the world. Our customers include General Motors, Ford, Freightliner, Kenworth, Peterbilt, and Mack in the truck-tractor market. In the truck-trailer market, we supply Fruehauf, Utility, Great Dane, Dorsey and a variety of other specialty manufacturers of truck-trailers. In the agricultural market, we supply John Deere, J.I. Case, White Farm - Div. of Allied Products, Fiat Allis, and Steiger Tractor to name a few.

In our business the original equipment manufacturer buys individual items. They will search for a supplier for a rear light, front turn signal or any other lighting or mirror item they require. I am not attempting to claim that we supply all of our type of items to each of these manufacturers, but I am saying that we are supplying one or more items to each of the above companies named.

Grote is a very integrated manufacturer in that we do our own injection molding (20 machines), sonic welding, vibration welding and hot-knife welding of plastic parts. We have our own metal stamping machines. Our plant paints metal and plastic parts. We process our own wire and do the terminating as well as all of the final product assembly operations. We have in house a complete laboratory so as to be able to test photometrics as well as any of the physical testing required for the products which we make. In addition, we have our own tool shop so that we can do the repairs needed for our tools or make a tool, if required.

We do in house our own designs for the products which we manufacture. We have a design staff of approximately 25 people and have additional supporting people in our laboratory to support the testing of our product and in the helping of the design department to verify designs or improve designs.

Grote has always thought of itself as a manufacturer that produces quality parts. In the United States and Canada you will find us as a supplier that has an outstanding reputation for the quality product that we make. Not only do our management people feel that we supply a quality product, but we have made every effort and feel that we have succeeded in establishing that thought with everyone who is employed at Grote.

Our company is a family-owned company. My grandfather acquired this business in 1924 for his eight children. There were four daughters and four sons in his family. Over a period of time my three brothers and I have acquired all of the stock so that we and our children own 100% of the company.

Grote is a company that has been located in Madison, Indiana since 1960. We presently have approximately 650 employees. The company is currently occupying 232,000 sq. feet of manufacturing space and is making an addition at the moment of 142,000 sq. ft. In Toronto, we have 50 employees and 25,000 sq. ft. Being a privately-held company, we have never publicly disclosed our sales volume; however I do believe that I have established for you a sufficient basis for you to understand that we are a very significant factor in the production of lighting and mirrors for commercial vehicles and have the understanding and capability of supplying on a timely basis actual products as well as designs of products that would be required for commercial vehicles.

The market for our type of product is in a very significant state of evolution. If you look at the ownership of the Class 8 truck-tractor manufacturers, I would like for you to consider the significant change that is occurring.

Former Owner	New Owner with a % of or the Total Business
White Motor Company	Volvo (Sweden)
Mack	Renault (France)
Freightliner	Mercedes Benz (West Germany)
Ford	Ford (U.S.A.)
International Harvester	Navistar (U.S.A.)
Kenworth	Paccar (U.S.A.)
Peterbilt	Paccar (U.S.A.)
GMC	Volvo - GMC (Sweden 65% U.S.A. 35%)

If you look at the listing above, you will see that there has been a 50% change of ownership to foreign owned companies. From an industry that was entirely owned by Americans, we now have half owned by foreigners.

In addition, being imported into the country at this point in time is Hino, Isuzu, Iveco, and perhaps one or two others I haven't mentioned.

I think it is fairly obvious that if Grote is going to succeed, we are going to have to have a product that is acceptable to anyone in the world. In other words, we have to have products that are world-class in quality, and we have to have access to those markets. For a company of our size with our financial resources, that is not the easiest thing to do. We do have an outstanding credit rating and are capable of raising funds as competitively as can be done. My point here is that we are not a billion dollar company with lots of people able to take large losses to finance our way into a new market. We can develop normal sales contacts and provide the engineering assistance to develop products that are right for anywhere in the world. We are currently doing some market research on products that are used in the European markets, trying to see if we can't develop a way to access the European market. We have had a number of visits with various Japanese companies. We, when I say we, I am referring to my brother, William D. Grote, III., Vice President, Sales and Marketing, and myself.

Both Bill and I have travelled to Japan to call on vehicle producers. I went with the Department of Commerce U.S. Export Development Mission to Japan delegation in 1978 and Bill went in approximately 1984.

We each had meetings with vehicle producers' personnel. The Department of Commerce made all the arrangements for my visits with the vehicle producers. I believe I had visits with 10 vehicle producers with emphasis on producers of commercial vehicles. Bill's visit was not sponsored by the Department of Commerce so he made the arrangements for visits through a Japanese supplier of lighting to Grote. In addition, we have made contacts at trade shows that have been arranged by the Motor Equipment Manufacturers' Association. The results of the visits were that we were never able to develop a meaningful rapport so as to be able to attempt to supply the Japanese with products. We don't know if there is a problem with the quality, price, or delivery. To supply product there has to be a two way exchange of information.

It is my understanding that the Japanese have made a number of comments as to why America is not competitive. The comments that I have heard in particular are, and my response is:

JAPANESE COMMENT

1. U.S. part companies' uncompetitiveness is demonstrated by U. S. vehicle companies' extensive use of foreign parts.

MY COMMENT

1. In relating the comments to my product, lighting and mirrors are probably 99% produced in this country. That is an estimate on my part and I don't know of any way to prove what the American vehicle manufacturer is using.

JAPANESE COMMENT

2. U.S. companies only produce aftermarket parts that fit large cars.

MY COMMENT

2. For lights and mirrors, U.S. companies are producing parts for all sizes of cars.

JAPANESE COMMENT

3. U.S. part companies do not practice value engineering.

MY COMMENT

3. I can only comment as to my Company. We encourage and practice value engineering, and as an out-growth have an extremely active cost reduction program. Over the years we have reduced our total costs approximately 3% per year.

JAPANESE COMMENT

4. U.S. companies are unwilling to accept liability for defective parts.

MY COMMENT

4. *As the question relates to accepting liability for defective parts, and with our country's product liability laws, we are going to accept responsibility for certain parts whether we like it or not. How much liability is accepted for ordinary defective parts is being constantly discussed between suppliers and customers today. Suppliers want to replace the product and customers want not only the product, but also the complete labor factor included for the replacement. I would think that is something that would be worked out between supplier and customer if a relationship was established.*

JAPANESE COMMENT

5. U.S. companies are unwilling to absorb increases in individual factor costs, e.g. labor.

MY COMMENT

5. *This refers to absorbing cost increases, and again that is something that is ordinarily negotiated.*

JAPANESE COMMENT

6. In supplying Japanese manufacturing facilities in Japan, U.S. companies cannot meet "just-in-time" delivery schedules and, therefore, expect the vehicle manufacturer to absorb cost associated with warehousing.

MY COMMENT

6. *This is a cost of doing business and something that has to be negotiated.*

I have five questions that the Motor and Equipment Manufacturers' Association supplied that I have to believe are questions raised by the Japanese. I will indicate the question and answer, particularly as this would affect Grote Manufacturing Company.

Question #1 -- What role do U.S. auto parts manufacturers play in the research and design of new auto parts for motor vehicle manufacturers? Are the parts manufacturers merely given the blueprints for the parts by the vehicle makers or do they play an active role in developing the parts from the basic concepts provided by vehicle makers?

ANS. *For commercial vehicles, Grote does the basic design work. We institute market research, and as a result of our analysis, design the completed product for our customers. Normally, passenger car producers have given drawings that are completely detailed and request quotations on those parts. Grote has not participated in that business. There have been some recent changes with the passenger car producers. We were solicited to design the high-mounted rear stop light for approximately 1/3 of the Ford Motor Company business. It is my understanding that Ford had three outside suppliers as well as an in-house design team for the high-mounted stop light. We are capable and desirous of doing design work with all that entails. We are not interested in being given blueprints and asked to quote unless the circumstances were most unusual.*

Question #2 -- What is the present situation regarding the introduction of the kanban ("just-in-time") system by U. S. vehicle manufacturers? How have U.S. parts manufacturers adapted to the system?

ANS. *The commercial vehicle industry is really not aware of kanban. There are wide fluctuations in demand that require a company such as ours to carry inventory in order to supply product at a time when our customers need it. For the Ford high mounted rear light business there has been a substantial change. Rather than wide fluctuations in schedules, there is a very minimal schedule change. We have been able to handle with ease the short term production changes to schedules by Ford. We are shipping our high-mounted rear lights to Ford distribution centers and they are taking care of distributing the product to their line.*

Question #3 -- In the United States, where does the responsibility for defective auto parts rest? With the vehicle manufacturer or the auto parts manufacturer?

Ans. *With Grote Manufacturing Company, it would rest with the parts manufacturer, whether we were supplying something for the commercial vehicle market, our own design, or if we were producing to the vehicle maker's design. If the vehicle maker has designed a part incorrectly, it is our responsibility to tell him or refuse to do the job.*

Question #4 -- How do U.S. vehicle makers evaluate auto parts made by U.S. suppliers and those made by Japanese parts manufacturers? For comparable parts, which manufacturer (U.S. or Japanese) makes the better product?

Ans. *Not being a vehicle manufacturer, I don't know how they evaluate their parts.*

Question #5 -- What are the present auto parts purchase policies of U.S. vehicle manufacturers? What changes have occurred in these policies, i.e., "just-in-time" methods, long term contracts, systems engineering ability? Why are some parts and components out sourced?

Ans. *There is no way for the commercial vehicle market to make flat statements in regards to the questions asked. Each manufacturer is doing different things. I do see a trend, particularly with the truck-tractor manufacturers to reduce the number of suppliers they have and look more towards one supplier and establishing a better relationship with him. They are looking for companies with in-house design capabilities and that can supply a greater range of products of like characteristics. Grote is a company that would take full responsibility for not only the design, but compliance with the appropriate federal standards for our type of products. Inasmuch as we have relatively little passenger car business, I don't really feel in a position to comment as to their changes. The little that we see of Ford, I think Ford is moving to a position as described above with their passenger car business.*

From all of the various articles that I have read and our own attempts at doing business, Japanese vehicle makers have Japanese suppliers and are not really attempting to establish relationships with foreigners. There are constantly things that are changing in the business world and an endless variety of reasons can be presented as to why you cannot do business together. Let me give you an example of this from our company. We, at Grote, are fairly large purchasers of wire, and our suppliers of wire have told us that they need two months lead time in order for them to supply us on a timely basis with the wire we want. We recently instituted a program whereby we have told our wire suppliers that two months lead time is unacceptable and that the whole lead time process has to be substantially reduced. The suppliers responded that that was impossible. We indicated that we understood it was impossible for them, but that we were going to find manufacturers who would, and that if they wanted to lose the business when we found someone who would, then that was fine with us. They needed to know that we were going to find someone who would substantially reduce the lead time by inventorying product for us at no additional cost. We are in the process of implementing that decision on our part and we found a change of heart. Some of our suppliers are now interested in carrying our inventories for us.

All I am trying to say is that there is an awful lot of give and take in any supplier-customer relationship. There first of all has to be a will or desire to do business. I am suggesting that desire and will does not exist with the Japanese to do business with American suppliers.

What is the impact on America of lost jobs in manufacturing? My thoughts are as follows.

It is the manufacturing part of our economy where true wealth is made. As we add value to the product through labor or material, we are increasing the value of the part.

Service industries are just that -- service. The need for the service industry is created by filling needs of the manufacturing segment. Without a manufacturing portion of America's economy, the service industry will sooner or later die.

It is in the manufacturing area that new technology is made. If a country wants to be in control of its own destiny, it must be able to raise capital, have technology, the trained work force and the will and desire to make things work.

Simply stated, as we lose jobs to overseas countries and foreigners are in control of our industrial base, we will become a third world country.

Senator QUAYLE. I was struck by the statistic that Mr. Mitchell pointed out that before 1982, you were a net exporter in auto parts, and now we are net importers of parts.

I have a two-part question for each one of you. Can we, in our domestic industry, be competitive on price and quality; and second, if so, are we being shut out of the Japanese market, either over there or as the Japanese market comes to the United States?

I think this is the crux of the problem that I am trying to identify and deal with. And I would like you to be as specific as possible on those two questions—can you, in fact, compete, and if you can, are you being shut out of that market.

Mr. Mitchell.

Mr. MITCHELL. Yes; we can be and are competitive pricewise, and qualitywise. We know we are, because we now supply our Japanese customers, so we are assured of that. You say are we being shut out. I think if you go back in time to when the dollar-yen relationship was different, it was pretty damned difficult not to be shut out.

But with the change in the currency valuation we now have very significant agreements and relationships with companies like Mitsubishi, Honda, Komatsu Isuzu, Nissan, and so on. And the pace has picked up. The relationship has picked up and I think the opportunities have picked up in the last year, year and a half.

Senator QUAYLE. So your answer is yes, in the past, that you were definitely shut out, and you attribute part of that to the yen-dollar valation. Since that time, as a result of the ongoing MOSS talks, in part, you feel that there has been some progress made.

Mr. MITCHELL. Yes.

Senator QUAYLE. Mr. Grote, do you share that same feeling?

Mr. GROTE. Yes, but I cannot speak to it as positively as Mr. Mitchell. From a quality standpoint, I do not see that there are any problems at all with what Grote in particular is making and what Americans make.

From a price standpoint, we have not had the opportunity to develop the relationship, so I cannot tell you whether we are competitive or not. It is my feeling, just based on the trade deficit and the things that I have read, that the Americans are not viewed equally as suppliers, potential suppliers.

Senator QUAYLE. OK. Senator Simon.

Senator SIMON. Just one question, and Mr. Mitchell, I will direct it to you first and then I would be interested in the others' answers.

I have been glancing through the other statements because I am not going to be able to stay, and Mr. Runyon, who I mentioned earlier, said, talking about you, Mr. Chairman:

> I read a statement you made the other day, estimating that the U.S. manufacturing subsidiaries of Japanese auto companies procure only about 15 to 20 percent of their components from U.S. suppliers. We are actually close to 30 percent, and we plan to increase that number.

And then he says:

> Our procurement policy is straight-forward. Our management team in Tennessee selects suppliers for the parts we buy on the basis of three criteria: quality, cost and timeliness of delivery.

Now, is your experience that the other Japanese manufacturers here are doing the same, or will do the same? And I do not want to be just picking on Japanese manufacturers. What is your experience with VW, or others? And I will just go down the line.

Mr. MITCHELL. I would not want to mislead you that I could speak for the automobile companies, because we supply principally trucks, and we supply offhighway. So our relationship would be with companies like Nissan and Komatsu. And I would say the answer, then, is yes. If you are asking me if that is so with Mazda and people like that, we do not have a relationship with them, so I could not speak to it.

Senator SIMON. Mr. Raftery.

Mr. RAFTERY. The information that we have on-hand is that it continues to be difficult for United States suppliers to crack even the United States market of Japanese vehicle producers, but there is progress being made. However, we think that deals only with one element of the area. The other has to do with the imported vehicles coming into this country, which far exceed those which are being produced here. And third, and maybe even more critically from the viewpoint of the aftermarket, is the absolute inability of the United States producers to sell to United States subsidiaries of Japanese companies replacement parts, unless they have the original equipment business in Japan.

Senator SIMON. Mr. Grote.

Mr. GROTE. I think the American parts producer is very capable of supplying the quality level, the price level, and the delivery level. It simply needs the opportunity. That is really what I am saying for myself, for the commercial vehicles.

Senator SIMON. And is your experience that they are providing that opportunity?

Mr. GROTE. They are not providing it.

Senator SIMON. And what about the non-Japanese manufacturer here? Do you have the same experience with them that you do with the Japanese manufacturers?

Mr. GROTE. No. Ours is primarily a commercial vehicle market. They are basically importing into this country. We have not been able to get our products onto the parts that they are importing. Honda and Nissan are both parts producers.

Senator SIMON. Mr. Raftery, I think you are then the one who has to answer this question. What about VW, and what about the other manufacturers?

Mr. RAFTERY. I think you have a similar situation. I think what happens is the numbers bring the attention to the Japanese situation But it would be unfair for me to say that we have that situation only with the Japanese, because I do not think that is true.

I think the answer has to come from the producers and not from an association executive.

Senator SIMON. I thank the three of you.

Thank you, Mr. Chairman.

Senator QUAYLE. Thank you, Senator Simon.

Gentlemen, thank you very much, and we look forward to working with you in the future.

The next panel will be Mr. Morris and Mr. Jeffe.

Mr. Julian Morris is president of the Automotive Parts & Accessories Association of Lanham, MD. Mr. Morris, welcome, and proceed for 5 minutes, please.

STATEMENT OF JULIAN C. MORRIS, PRESIDENT, AUTOMOTIVE PARTS & ACCESSORIES ASSOCIATION, LANHAM, MD, AND SIDNEY D. JEFFE, SENIOR VICE PRESIDENT FOR INTERNATIONAL BUSINESS AND TECHNICAL DEVELOPMENT, THE SHELLER-GLOBE CORP., DETROIT, MI

Mr. MORRIS. Mr. Chairman, I am Julian Morris, president of the Automotive Parts & Accessories Association [APAA]. I would like to thank you for the opportunity to meet with you today to discuss our country's drive to pry open the Japanese original equipment and aftermarket/replacements parts markets that hold the key to the future of the supplier industry.

Certainly, we have come a long way in the year since the Department of Commerce responded to industry proposals, ours among others, for a joint industry-government Japan market opening initiative, aimed at all markets where Japan builds and sells cars. Now, with Congress on the team, we certainly have been able to back the sales efforts of world-class producers with U.S. political clout. It took a concerted effort to bring Japan to the MOSS negotiating table, a goal that APAA committed 15 months of our resources, time, and personnel to help this industry attain.

The MOSS forum now affords as an ideal opportunity to demonstrate the sound economic and political reasons for Japanese original equipment manufacturers [OEM's] or carmakers, to purchase products outside of their supplier families.

Unless MOSS succeeds in breaking through the shell that surrounds the cozy Japanese OEM/supplier families, we face the wholesale export of our industry profits and jobs to Japan. By UAW estimates, left unchecked, Japanese practices by 1990 could cost 500,000 jobs, both in automaking and the supplier industry, with two-thirds of that number lost permanently in the supplier sector.

This could happen because at a time when the United States new car market is flat, as it is expected to remain throughout this decade, each Japanese import and each car assembled here by transplanted Japanese OEM's will displace a unit of domestic OEM production. Cars now made with 90-percent-plus domestic content will be displaced by transplant production that uses less than 20-percent American content and imports all engine, drivetrain, and other high value-added component systems from Japan. Direct imports from Japan, carrying little if any United States-made products, round out the bleak picture.

Even the meager American sales to Japanese transplants will dry up if some 300 or more Japanese parts makers carry out their present plans to migrate to the United States by 1988. This frontal assault could position them as "domestic" suppliers to the transplants, and would set the stage for the final push, I suppose, to capture the Big Three OE contracts and to compete in the vast United States aftermarket as well. The plan is to wrest control of the equipment markets for all cars sold in America by 1988.

With our customer base shifting from Detroit to Tokyo, United States suppliers must get sales contracts with new Japanese OEM customers now, or face a downward spiral of lower profits and productivity, excess capacity, and employee terminations.

Concerning the crucial MOSS talks, APAA offers the following observations:

One, as Mr. Smart so aptly stated at the August opening session, Japanese OEM's who have benefited the most from open United States markets also stand to lose the most, unless Congress is satisfied that parts markets are opening and that there are bottom-line results to show for it.

Two, the United States should focus on the two top objectives—removal of structural impediments to OE sales and access to the global aftermarket for Japanese cars—and stay the course. The investment issue should abate if Japanese OEM transplants show good faith on the OE objective and turn to existing local sources, precluding the need for Japanese supplier migration. We caution against permitting Japan to cherrypick among lesser objectives, such as market promotion efforts, and claim success.

Three, Japan could attempt to stall the talks by raising specific cases of alleged poor United States supplier performance to justify their lack of United States parts purchases. If permitted, these tactics could deflect and divert the attention from the real problem of closed OE and replacement parts markets, which Japan's Government admitted as early as 1980. Moreover, independent studies show, and Japan's OEM's know, that there are highly competitive United States manufacturers in every automotive product category.

The U.S. market is as open as theirs is closed. The question of continued openness provides our ultimate leverage. APAA urges specific interim steps that we can take to end Japanese exploitation of that openness. None are protectionist: All would put an end to government subsidization of foreign firms.

One, a congressional push may be needed to put the Federal house in order on the Japanese supplier investment issue. The market facts should convince Federal and State leaders that by encouraging new capacity to serve a flat market, they are helping foreign firms displace the market share of existing firms. If the States persist, legislation should be considered at least to ban use of Federal funds for such purposes.

Two, hold the line on new foreign trade zones [FTZ]—subzone grants for auto making, until we can see whether they serve the public interest fully. Japanese OEM transplants now benefit the most from the program, enjoying significant tariff savings on huge shipments of Japanese parts imports. The effect is to boost the competitiveness of Japanese parts imports at the expense of American suppliers and their workers.

Three, duty-free access for OE shipments allowed under the United States-Canada Auto Pact has become a selling point to lure Japanese suppliers to Canada. This abuse by unintended third party beneficiaries demands our reevaluation of the pact.

These actions taken now in a nonprotectionist manner will demonstrate U.S. resolve to open markets for American automotive suppliers.

Thank you for this opportunity, Mr. Chairman, to share our views. I would be happy to attempt to answer any questions you may have.

Senator **Quayle**. Thank you very much, Mr. Morris.

[The prepared statement of Mr. Morris follows:]

SUMMARY
STATEMENT OF
JULIAN C. MORRIS
PRESIDENT
OF THE

AUTOMOTIVE PARTS AND ACCESSORIES ASSOCIATION, INC.

PRESENTED TO
THE SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY
UNITED STATES SENATE
SEPTEMBER 25, 1986

Mr. Chairman and Members of the Subcommittee:

I am Julian Morris, president of the Automotive Parts and Accessories Association (APAA). Thank you for this opportunity to meet with you today to discuss America's drive to pry open the Japanese OE and aftermarket/replacement parts markets that hold the key to the future of the American automotive supplier industry.

We have come a long way in the year since the Department of Commerce accepted APAA's proposal for a joint industry/government Japan market opening initiative, aimed at all markets where Japan builds and sells cars. With Congress on the team, we have been able to back the sales efforts of world class producers with U.S. political clout. It took a concerted effort to bring Japan to the MOSS negotiating table, a goal that APAA committed 15 months to help industry attain. The MOSS forum now affords us an ideal opportunity to demonstrate the sound economic and political reasons for Japanese Original Equipment Manufacturers (OEM's), or car makers, to purchase products outside of their supplier families.

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Thank you for this opportunity to share our views. I will be happy to answer any questions you may have.

Senator QUAYLE. Next, Mr Sidney Jeffe, the senior vice president, international business and technical development of the Sheller-Globe Corp. in Detroit.

Welcome. I had the pleasure of visiting with some of your people in my office a few months ago. We are glad to have you here.

Mr. JEFFE. Mr. Chairman, on behalf of Sheller-Globe and its 12,600 employees, I thank you for providing me this opportunity to testify before the subcommittee today.

As part of the $100 billion United States automotive parts industry, we are extremely grateful for the leadership which you and members of the subcommittee have exercised in discussions of United States/Japan automotive parts trade.

The subject of trade in automotive parts is, in my view, an important one which merits this committee's attention and continued interest. Hundreds of thousands of jobs for American workers depend upon the strength of the U.S. automotive parts industry.

As I have mentioned, we, at Sheller-Globe, employ 12,600 employees in plants and offices in 25 States, including 7 plants providing over 2,000 jobs in the chairman's home State of Indiana. Total employment in the U.S. automotive parts industry exceeds 1 million. Clearly, the importance of the automotive parts industry in terms of jobs for American workers cannot be overstated.

In my opinion, the MOSS talks on auto parts trade begun in Tokyo last month represent a significant opportunity for us to work with the Japanese Government and industry to improve our trading relationship in a mutually beneficial manner.

I was invited by the Commerce Department to observe the first round of talks in Tokyo, and Sheller-Globe plans to continue to participate in this process in the coming months. We are pledged to cooperate with and assist our Government's negotiators and to continue our efforts to work with Japanese auto manufacturers to develop a strong business relationship.

We at Sheller-Globe believe that the Commerce Department, under the leadership of Under Secretary Bruce Smart, Assistant Secretary H.P. Goldfield, and Deputy Assistant Secretary Bob Watkins has brought a high degree of concern and skill to the MOSS discussions.

I would like to note also that the Japanese automobile manufacturers have shown a strong commitment to participate in the MOSS talks and to work with Sheller-Globe and other companies to develop expanded trading relationships.

One of the important things to note about the automotive parts trade situation is that it is not a trade dispute in the traditional sense. The lack of significant United States auto parts sales to Japanese manufacturers operating both here and in Japan is not the result of unfair trade practices as they commonly are understood.

In the United States, suppliers traditionally have had an arm's-length relationship with their customers. We generally do not have the close manufacturer-supplier relationships which exist in Japan. Our contracts for the supply of parts are regularly subject to competitive bidding. Manufacturers normally purchase a given type of product from a number of suppliers, and suppliers such as Sheller-Globe typically do business with all of the major U.S. manufacturers.

In Japan, the relationships among manufacturers and their suppliers are quite different. Each manufacturer generally looks only to certain traditional suppliers for the supply of automotive components. One factor contributing to this is the partial equity interest many OEM's have in their suppliers.

There is a much greater degree of cooperation in planning and engineering, and competitive prices are assured through a continual process of negotiation. From the point of view of American suppliers, these close relationships are a cause of great concern.

We at Sheller-Globe are seeking to establish business relationships with the Japanese auto companies based upon the quality of our products and services, competitive prices, and our willingness to participate actively in design and engineering. We look forward to working closely with the Japanese auto companies in order to show that the close relationships between OEM's and suppliers need not constitute a barrier to trade.

Based on my experience in Tokyo last month, I would say that we have set a proper course in the MOSS talks. The Japanese Government and industry, as well as their counterparts, expressed a sincere willingness to work together to solve this difficult problem.

As part of this effort, we at Sheller-Globe have intensified our discussions with Japanese manufacturers concerning the purchase of our products. There have been some developments thus far in terms of sales contracts, which are very encouraging. Sheller-Globe has received important contracts to produce prototypes for Japanese manufacturers which could lead to substantial sales in the future.

These early signs of success reflect an ongoing effort by Sheller-Globe to sell its products to Japanes auto manufacturers. We have established a marketing office in Tokyo, soon to be augmented by an engineering staff capable of working closely with the Japanese. As a complement to our participation with other industry advisers in the MOSS talks, we have planned a series of high-level meetings with officials of Japanese auto manufacturers in Japan to discuss not only technical issues, but also the overall aspects of the business relationships we would like to develop.

The stakes in the MOSS talks are very high indeed and can be measured directly in terms of employment for U.S. auto parts workers. The current average level of foreign content for all cars including imports sold in America has been estimated at 39 percent. It has been estimated also that by 1989, this could rise to as high as 58 percent. Should this occur, I have no doubt that employment at the U.S. auto parts manufacturers would decline sharply.

We at Sheller-Globe intend to do our part to reverse this trend by working with Japanese automakers to develop increased sales of high-quality parts at competitive prices.

Thank you again. I would be pleased to answer any of your questions.

Senator **Quayle**. Thank you very much, Mr. Jeffe.

[The prepared statement of Mr. Jeffe follows:]

Statement of Sidney D. Jeffe
Group Senior Vice President
for International Business and
Technical Development,

Sheller-Globe Corporation

Before the Subcommittee on Employment and Productivity

Senate Committee on Labor and Human Resources

September 25, 1986

Mr. Chairman, on behalf of Sheller-Globe Corporation and its 12,600 employees, I thank you for providing me the opportunity to testify before this Subcommittee today. With our colleagues in the $100 billion U.S. automotive parts industry, we are extremely grateful for the leadership which you and the Members of the Subcommittee have exercised in discussions of U.S./Japan automotive parts trade.

The subject of trade in automotive parts is, in my view, an important one which merits this Committee's attention and continued interest. Hundreds of thousands of jobs for American workers depend upon the strength of the U.S. automotive parts industry. As I have mentioned, we at Sheller-Globe employ 12,600 employees in plants and offices in 25 states including 7 plants providing over 2,000 jobs in the Chairman's home state of Indiana. Total employment in the U.S. automotive parts industry exceeds 1.5 million. Clearly, the importance of the automotive parts industry in terms of jobs for American workers cannot be overstated.

The health of the U.S. auto parts industry, and with it the future of many of the jobs of our workers depend upon the development of effective and lasting business relationships between U.S. automotive parts manufacturers and Japanese vehicle manufacturers. Fully half of the current U.S./Japan trade deficit of $50 billion is reported to be in the automotive sector. It is therefore sensible that in its efforts to reduce the mushrooming trade deficit with Japan, our government has focused on the automotive sector as one of the important contributors to this difficult problem.

In my opinion, the market oriented sector specific or MOSS talks on auto parts trade begun in Tokyo last month represent a significant opportunity for us to work with the Japanese government and industry to improve our trading relationship in a mutually beneficial manner. I was invited by the Commerce Department to observe the first round of the talks in Tokyo, and Sheller-Globe plans to continue to participate in this process in the coming months. We are pledged to cooperate with and assist our government's negotiators and to continue our efforts to work with Japanese auto manufacturers to develop a strong business relationship.

We at Sheller-Globe believe that the Commerce Department, under the leadership of Undersecretary Bruce Smart, Assistant Secretary H.P. Goldfield and Deputy Assistant Secretary Bob Watkins has brought a high degree of concern and skill to the MOSS discussions. We are grateful for the close cooperation of these individuals with the U.S. industry in developing a thorough understanding of the auto parts industry and in preparing a sound approach to ensure the success of the talks. Most important, we are grateful for the strong support the Department has received from Congress in this effort.

I would like to note also that the Japanese automobile manufacturers have shown a strong commitment to participate in the MOSS talks and to work with Sheller-Globe and other companies to develop expanded trading relationships. As I will discuss in a moment, we already have seen very encouraging signs in terms of developing new sales relationships with the Japanese manufacturers. I attribute these positive developments to the spirit of cooperation which has been established by our governments and, in recent weeks, by the Japanese auto manufacturers and the U.S. auto parts industry.

One of the important things to note about the automotive parts trade situation is that it is not a trade dispute in the traditional sense. The lack of significant U.S. auto parts sales to Japanese manufacturers operating both here and in Japan is not the result of unfair trade practices as they commonly are understood.

In the United States, suppliers traditionally have had an "arms-length" relationship with their customers. We generally do not have the close manufacturer-supplier relationships which exist in Japan. Our contracts for the supply of parts are regularly subject to competitive bidding. Manufacturers normally purchase a given type of product from a number of suppliers, and suppliers, such as Sheller-Globe, typically do business with all of the major U.S. manufacturers.

In Japan, the relationships among manufacturers and their suppliers are quite different. Each manufacturer generally looks only to certain traditional suppliers for the supply of automotive components. One factor contributing to this is the partial equity interest many OEM's have in their suppliers. There is a much greater degree of cooperation in planning and engineering, and competitive prices are assured through a continual process of negotiation. From the point of view of American suppliers, these close relationships are a cause of great concern.

We at Sheller Globe are seeking to establish business relationships with the Japanese auto companies based upon the quality of our products and services, competitive prices, and our willingness to participate actively in design and engineering. We look forward to working closely with the Japanese auto companies in order to show that the close relationships between OEMs and suppliers need not constitute a barrier to trade. Given the strong economic and political interdependence of Japan and the United States, we simply cannot permit trade tensions to continue at current levels. In order to address this problem effectively, we must find a way to accommodate our different ways of doing business, particularly in the automotive sector. I believe that by approaching this task in a cooperative and constructive fashion we can defuse a potentially serious trade problem in a manner which benefits all parties.

Based upon my experience in Tokyo last month, I would say that we have set a proper course in the MOSS talks. The Japanese government and industry, as well as their U.S. counterparts, expressed a sincere willingness to work together to solve this difficult problem. As part of this effort, we at Sheller-Globe have continued our discussions with Japanese manufacturers concerning the purchase of our products. There have been some developments thus far in terms of sales contracts, which is very encouraging. Sheller-Globe has received important contracts to produce prototypes for Japanese manufacturers which could lead to substantial sales in the future.

These early signs of success reflect an ongoing effort by Sheller-Globe to sell its products to Japanese auto manufacturers. We have established a marketing office in Tokyo, soon to be augmented by an engineering staff capable of working closely with the Japanese manufacturers. As a complement to our participation with other industry advisors in the MOSS talks, we have planned a series of high level meetings with officials of Japanese auto manufacturers to discuss not only technical issues but also the overall aspects of the business relationships we would like to develop. As part of this process, Sheller-Globe's top executives, Marshall S. Cogan and Chester Devenow, will be in Tokyo during late October for meetings with the management of the Japanese OEM's. A technical team from Sheller-Globe is planning to meet with their counterparts in the Japanese firms to lay the groundwork for continued discussions at the technical level.

The stakes in the MOSS talks are very high indeed, and can be measured directly in terms of employment for U.S. auto parts workers. The current average level of foreign content for all cars including imports sold in America has been estimated at 39 percent. It has been estimated also that by 1989 this could rise as high as 58 percent. Should this occur, I have no doubt that employment at the U.S. auto parts manufacturers would decline sharply. We at Sheller-Globe intend to do our part to reverse this trend by working with Japanese automakers to develop increased sales of high quality parts at competitive prices.

Mr. Chairman, I would like to conclude my remarks by saying that our participation in the MOSS talks and our preliminary discussions with Japanese auto manufacturers have given us reason to be hopeful about the prospects for reducing our auto parts trade imbalance with Japan. The process will require continued concerted effort on the part of all parties concerned. At this point, we are convinced that both industry and government in the U.S. and in Japan have demonstrated the necessary commitment to make this undertaking a success. Again, we at Sheller-Globe are sincerely appreciative of the support you have lent in this effort.

I would be pleased to answer any questions.

Senator **Quayle**. You referred specifically, Mr. Jeffe, to the MOSS talks and how they are progressing, and you referred to some movement or some reason for optimism. Specifically, how will we measure success in our MOSS talks? What kind of gauge should we be looking for to gauge whether we are making any progress on improving access? Do you have any general criteria that we ought to be examining?

Mr. **Jeffe**. Very simple. The dollar amount of sales that we at Sheller-Globe can measure that we have specifically with the individual Japanese landed United States auto makers.

Senator **Quayle**. So if they take care of Sheller-Globe, that is all you are interested in?

Mr. **Jeffe**. Well——

Senator **Quayle**. Let us broaden the picture a little. Let us look at the broader picture—and I am interested in Sheller-Globe, too. You employ a lot of people in Indiana, and I want to keep them employed. But just for a moment, let us go a little bit beyond the specific.

Mr. **Jeffe**. We recognize that, of course.

Senator **Quayle**. What should we be looking for?

Mr. **Jeffe**. I think that the measure of sales should be broadened to include many specific areas of the vehicle, and they should be summarized in aggregate for all companies, somehow measuring the amount of sales that the United States is generating in these areas of the landed and in Japan relative to Japanese auto companies. That is one of the key areas of the specifics that the MOSS talks will address.

Senator **Quayle**. Mr. Morris, do you want to shed any light on how we ought to measure progress at the MOSS talks?

Mr. **Morris**. I do believe that it will become, if it is not already, an integral part of the arrangements that there be a formal mechanism to measure progress. And clearly, you have hit on the heart of the issue: sales. In order for these things to measure the success, it would have to be in terms of actual sales. Nothing else would substitute for sales as a measure of the success or even the wisdom of this entire enterprise.

Senator **Quayle**. Let me ask you the question I asked the previous panel. Can our domestic industry compete on a quality and cost and timeliness of service basis, and are we specifically being shut out of the Japanese market?

Mr. **Morris**. Yes to both.

Senator **Quayle**. Absolutely. I mean, you have no doubt in your mind that this is——

Mr. **Morris**. None whatsoever.

Senator **Quayle**. Can you give me a couple specific examples on each one?

Mr. **Morris**. Well, I think that rather than take your time with the specifics, the overall logic, at least as we perceive it, is that we start from a sound American technological base. As far as we see, the alleged superiority of Japanese products to ours is undermined by a far less than admirable record in safety recalls of Japanese cars in this country. The record more than bears out the reliability, quality, price competitiveness, and other characteristics of the U.S. supplier industry. And I have not seen, except for Japanese pronouncements or allusions to American inferiority, anything that convinces me that it is actually true.

But more importantly than that, especially as far as price competitiveness is concerned, we will never know will we, unless we get the opportunity, unless we get the specs, unless we are able to sit across from them and know that they are serious. If you are faced with a contract for umpteen million Toyotas, you can price the socks off them.

Senator QUAYLE. Mr. Jeffe.

Mr. JEFFE. The answer to your questions, sir, are very much interrelated and cannot be answered, in my opinion, independently. They are due to a combination of factors. First of all we have to understand thoroughly the differences in supplier relationships in Japan versus the traditional methods that we have with the United States customers. Second, we have to establish an intensive quality program which is, in the Japanese terms, companywide quality control, or TQC [total quality control].

And just to go into specifics on that, that means an intensive employee training program from the chairman and president right down to the production worker.

Second, we need intensive use of statistical process control and those related methods of controlling your quality, such as value engineering and failure modes effect analysis, which is a method of determining ahead of time whether you are going to have a problem or not. These techniques, incidentally, are United States origin, Japanese honed and perfected over the years.

We need employee participation in the quality problems, and we do it through the use of quality control circles in our plants. We need a thorough understanding of improving quality, even at high capital cost, and as a basic philosophy that ultimately will reduce product costs, very definitely.

We have to participate in just in time, which we are doing, as demanded by the customer. We have to involve ourselves and our marketing personnel along with the strong engineering support of their efforts to produce that quality.

I think all of these factors plus others say to us that we can compete qualitywise if we do these things—and we are doing them.

As far as the answer to the second question, we were not doing this several years ago at this level of participation qualitywise. We are now, we have been for the last 4 years. And I offer a sense of hope and opportunity that with this type of effort that we can penetrate the Japanese system in order to deal with them and offer our products on a competitive basis with good quality, good price, and good delivery techniques.

And incidentally, the same techniques—if I may take another second—have worked very well with the U.S. auto companies. We have received quality awards from General Motors—the so-called Spear Award in all of our plants but one so far. We have most of our plants under Ford Q-1, and similarly, Chrysler's Pentastar Award. As a result, our business has flourished in the U.S. part of the market

Senator QUAYLE. Thank you very much.

Thank you, gentlemen, for your testimony.

Our next witness is Mr. Steve Beckman, the international economist for United Auto Workers.

Welcome, Mr. Beckman. Thank you for coming and testifying today. Please proceed at your pleasure.

STATEMENT OF STEVE BECKMAN, INTERNATIONAL ECONOMIST, UNITED AUTO WORKERS, WASHINGTON, DC, ACCOMPANIED BY GENE CASRAISS, LEGISLATIVE DEPARTMENT, UAW

Mr. **Beckman**. Thank you, Mr. Chairman. I have with me today Mr. Gene Casraiss, who is from the legislative department of the UAW.

Senator **Quayle**. Welcome once again.

Mr. **Casraiss**. Thank you, Mr. Chairman.

Mr. **Beckman**. Mr. Chairman, thank you for providing this opportunity to testify on behalf of the UAW before your subcommittee concerning the employment impacts of the changes facing the U.S. auto parts industry.

In the brief time I have, I would like to make a few points first regarding the problems presented by United States-Japan trade in auto parts.

First, the tremendous growth of imported vehicles, primarily from Japan, has cut the domestic producers' share of the United States market. This, of course, has shifted demand for auto parts from United States parts producers' traditional customers to Japanese producers. United States parts producers, despite repeated efforts, have been unable to win significant contracts to supply original equipment or replacement parts to Japanese producers in their home market.

Second, Japanese auto makers have begun to invest in North American production plants. Yet their plants to date have remained assembly facilities. They import nearly all parts from Japan rather than purchasing them from United States suppliers. Again, United States parts makers have made strenuous efforts to win supply contracts for the United States operations of Japanese auto producers, but they have been denied fair treatment. The value of the U.S. parts in these transplant operations is only about 30 percent of the total value of parts. High-value parts, such as engines and transmissions, are imported.

The growth of transplant production and the arrangements of such producers with domestic auto firms to sell much of their output through the domestic firms' dealers will significantly reduce the use of existing supplier firms' products in the coming mix of U.S. auto sales.

Third, many Japanese parts producers are now setting up United States plants. A large number of the new investments will be looking for business from the domestic manufacturers as well as the Japanese transplant operations.

The impact of these developments on auto parts trade has already been very large. Between 1980 and 1985, the total value of Japanese auto industry exports doubled, but parts exports increased by a factor of 4. Meanwhile, United States exports of auto parts to Japan, which were a mere 10 percent of the value of Japanese exports to the United States in 1980, fell to only 5 percent in 1985.

The recent structural changes in auto industry production and sales could result in the loss of up to 500,000 jobs, or about 25 percent of current employment in the industry by 1990, just 4 short years away. This comes on top of a loss of 400,000 jobs between 1979 and 1985.

The results of the unfair treatment of U.S. suppliers will be terribly damaging to the U.S. auto parts industry if present trends continue. By 1990, nearly 2 million Japanese-designed vehicles will be made in the United States. Nearly all of these transplant cars will replace vehicles containing approximately 95 percent U.S. parts by value with vehicles incorporating less than 30 percent U.S. parts value.

Because of this, a typical transplant assembly facility creates only 6,700 jobs in the U.S. parts and materials supplier industries, compared to the 25,000 jobs generated by a typical domestic assembly plant.

We have looked at the employment impact of this shift in domestic parts production and find the results very disturbing—200,000 jobs of American workers could be lost by 1990.

Some of these automobile trade issues can be addressed by the market-oriented, sector-specific negotiations between the United States and Japan concerning auto parts. We fully support the Commerce Department's efforts to eliminate the unfair purchasing practices of Japanese auto companies in their home market and in the United States which restrain domestic employment and cause injury to thousands of our members in the parts industry.

The UAW has made every effort to lend its weight to this effort. We have made it clear to Government representatives in Washington and Tokyo that we will be watching the MOSS negotiations carefully and that we expect to increase United States sales to Japanese auto companies in both the Japanese and United States markets soon.

While the MOSS talks are a useful attempt to correct the U.S. trade imbalance in auto parts, much more needs to be done to remedy the trade problems faced by the U.S. auto industry and other domestic industries. Of special concern to the UAW are the plans of GM, Ford, and Chrysler to increase their imports of fully assembled vehicles to sell under their own names. These captive imports replace U.S. production, substituting cars with essentially no U.S. content for cars with 95 percent U.S. content.

By 1990, the share of captives is likely to rise to 20 percent of total imports of 4 million.

Workers in South Korea and Taiwan, where some of these additional imports will be produced, are subject to sharp restrictions on their right to organize unions and bargain with their employers. Their efforts to exercise such basic labor rights are often met with repression, arrest, and torture.

Imports of parts by domestic auto producers are also a problem. The U.S. content of domestic producers' U.S.-assembled cars appears headed toward 85 percent from the current 95 percent, as the U.S. producers increase their imports of a broad range of parts.

Unfortunately, the auto industry is not alone in facing heightened international competition, which is aided by the complicity of important domestic companies.

Senator **Quayle**. Excuse me for interrupting. Unfortunately, the second bell has sounded on a cloture vote regarding product liability, and that means I have about 7½ minutes to get over there.

Let me go ahead and put the rest of your testimony in the record. I just have one quick question, and you will have to be fairly quick in your response, otherwise I will miss this vote.

Mr. **Beckman**. OK.

[The prepared statement of Mr. Beckman follows:]

STATEMENT OF
STEVE BECKMAN, INTERNATIONAL ECONOMIST
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE
AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)
before the
SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY
of the
COMMITTEE ON LABOR AND HUMAN RESOURCES
UNITED STATES SENATE

September 25, 1986

Mr. Chairman, thank you for providing this opportunity to testify on behalf of the UAW before your Subcommittee concerning the employment impact of the changes facing the U.S. auto parts industry. We believe the U.S. auto industry, including the parts and supplier firms, could lose hundreds of thousands of jobs in the next few years because of trade and recent investment decisions unless strong government actions are pursued.

There are several interrelated facets of the auto industry's development which contribute to the problems encountered by workers and firms in the auto parts industry. The tremendous growth of imported vehicles, primarily from Japan, has cut the domestic producers' share of the U.S. market. U.S. parts producers, despite repeated efforts, have been unable to win significant contracts to supply original equipment or replacement parts to Japanese producers in their home market.

In response to the Voluntary Restraint Agreement (VRA) covering the export of automobiles from Japan to the U.S. first negotiated in 1981 and the threat of auto-related trade legislation, Japanese auto makers have begun to invest in North American production plants. Yet these plants, to date, have remained assembly facilities; they import nearly all parts from Japan rather than purchasing parts from U.S. suppliers. Again, U.S. parts makers have made strenuous efforts to win supply contracts with the U.S. operations of Japanese auto producers but they have been denied fair treatment in these efforts. The value of U.S. parts in these "transplant" operations is, thus, only about 30 percent of the total value of parts, with all high-value parts, such as engines and transmissions, imported. The growth of transplant production, and the arrangements of such producers with domestic auto firms to sell much of their output through the domestic firms' dealers will significantly reduce the use of existing U.S. supplier firms' products in the coming mix of U.S. auto sales.

As if this were not enough to hurt employment and production in the U.S. parts industry, now many Japanese parts producers are setting up U.S. plants. Some of these Japanese parts suppliers are responding to requests from their parent auto company to set up production near the parent's U.S. assembly plant; others are taking advantage of the financial incentives created by the recent appreciation in value of the yen to move close to the new U.S. plants of their traditional Japanese customers and see U.S. production as a way to supply the U.S. market at lower cost. A large number of the new investments will be looking for business from the domestic manufacturers as well as the Japanese transplant operations.

An examination of auto trade figures clearly shows the process which is underway and how rapidly the changes we foresee can take place. In 1980, the U.S. trade deficit for the auto industry was nearly $12 billion. The U.S. deficit with Japan was almost identical, so U.S. auto trade with the rest of the world was in balance. The U.S. auto parts (including engines) trade balance, however, was over $2 billion in surplus that year despite a $1 billion deficit with Japan. For 1985, the industry's total deficit was about $45 billion, of which $25 billion was with Japan. The worldwide auto parts surplus deteriorated into a $6 billion deficit, of which $4 billion was with Japan alone. Between 1980 and 1985, the total value of Japanese auto industry exports doubled, but parts exports increased by a factor of four. Meanwhile, U.S. exports of auto parts to Japan, which were a mere ten percent of the value of Japanese exports to the U.S. in 1980, fell to only five percent in 1985. The trade figures for the first half of 1986 show that the imbalance is still getting worse. Japan shipped $3.0 billion in auto parts to the U.S. through June, up an amazing 39 percent from the similar 1985 period. U.S. exports of auto parts registered only $110 million for the first half of 1986, a paltry 3.6 percent of Japan's exports.

These structural changes in auto industry production and sales could result in the loss of up to 500,000 jobs, or about 25 percent of current employment in the industry by 1990 — just four short years away. This comes on top of a loss of 400,000 jobs between 1979 and 1985. A large portion of this job loss will be in the auto parts and supplier industry. The UAW believes a change in Administration trade policy could play a pivotal role in preventing this unnecessary and deeply damaging employment decline.

Some of these automobile trade issues can be addressed by the Market-Oriented, Sector Specific (MOSS) negotiations between the U.S. and Japan concerning auto parts. We fully support the Commerce Department's efforts to eliminate the unfair purchasing practices of Japanese auto companies in their home market and in the U.S. The hostility to imports in the Japanese market is reflected in the extremely low U.S. exports to Japan. We have been told by numerous companies of their inability to receive a fair shot at original equipment or replacement parts sales in Japan. The resulting loss of exports certainly restrains U.S. employment and causes injury to thousands of our members in the parts industry.

The failure of Japanese auto producers that have moved to the U.S. to buy parts from U.S. suppliers is especially disturbing. Japanese parts producers have been free to sell in this country in both the original equipment and replacement markets; we had assumed, naively perhaps, that domestic suppliers would win business from the new Japanese firms' U.S. assembly plants. Yet we are told by suppliers that they are not given a fair chance to compete for business at these U.S. operations.

The results of this unfair treatment of U.S. suppliers will be terribly damaging to the U.S. industry if present trends continue. By 1990, nearly two million Japanese-designed vehicles will be made in the U.S. A typical transplant assembly facility creates 6,700 jobs in the parts and materials supplier industries, while the typical domestic plant generates an additional 25,000 jobs. Since plans for exporting fully-assembled cars to the U.S. from Japan are unlikely to be cut back, most of these transplant vehicles will displace sales of U.S.-made cars of the domestic producers. This will result in the replacement of vehicles containing approximately 95 percent U.S. parts by value with vehicles incorporating less than 30 percent U.S. parts value. We have looked at the employment impact of this shift in domestic parts production and find the results very disturbing — 200,000 jobs of American workers could be lost by 1990.

Beyond this very significant employment impact, the continued high level of imports and additional imports of parts from Japan will send our outrageous trade deficit much higher. The 1985 U.S. deficit with Japan is on its way to at least $60 billion in 1986. The growth of transplant auto production with the current level of U.S. parts content would raise that deficit in 1990 by more than $6 billion. We cannot endure any further deterioration in our trade balance with Japan, much less the kind of growth suggested by those numbers.

The MOSS talks provide an opportunity to convince the Japanese government and auto industry of the serious nature of the auto parts problem. The UAW has certainly made every effort to lend its weight to this effort. We have communicated our views to United States Trade Representative Yeutter (attached), who passed them on to Department of Commerce Under Secretary Bruce Smart. UAW President Owen Bieber, on his recent trip to Japan, spoke with Japan's chief negotiator in the talks, MITI Vice Minister Kuroda. We have made it clear to government representatives in Washington and Tokyo that we will be watching the MOSS negotiations carefully and that we expect increased U.S. sales to Japanese auto companies in both the Japanese and U.S. markets to be made soon.

While the MOSS talks are a useful attempt to correct the U.S. trade imbalance in auto parts, much more must be done to remedy the trade problems faced by the U.S. auto industry and other domestic industries. Japan is not the only source of imports which are displacing U.S. auto production. We are now faced with imported cars from Korea, Taiwan, Mexico, Brazil, Australia and Yugoslavia. Producers in still more countries are seriously looking at trying to sell in the U.S. as well. Of special concern are the plans of GM, Ford and Chrysler to increase fully-assembled imports to sell under their own names. These "captive" imports replace their U.S. production, substituting cars with essentially no U.S. content for cars with 95 percent U.S. content. Captives accounted for about 8 percent of total imports of 2.9 million cars in 1985. By 1990, their share is likely to rise to 20 percent of total imports of 4.0 million. Of the import increase of 1.1 million cars over this period, captives will account for almost 600,000 — more than half. Workers in many of the countries where these additional imports will be produced do not even have the right to organize unions and bargain with their employers. Their efforts to win such basic labor rights are often met with repression, arrest and torture.

Imports of parts by domestic auto producers are also a problem. The U.S. content of domestic producers' U.S.-assembled cars appears headed toward 85 percent from the current 95 percent, as the U.S. producers increase their imports of a broad range of parts, from engines and transmissions to brakes and electronic components. These changes in auto industry sourcing can mean hundreds of thousands of lost jobs for workers of U.S. parts producers.

The situation we have described for the auto industry would be tragic if it were the sole instance of an industry selling its long-term capacity for short-term cost advantages and, thereby, creating serious employment problems for American workers. Unfortunately, many other industries, including steel, machine tools, telecommunications and more, face the same heightened international competition, which is aided by the complicity of important domestic companies. The industrial base of the U.S. economy cannot survive a continuation of this erosion of production and employment capabilities. In testimony before the Senate Finance Committee, the UAW has proposed and supported changes in our trade laws which would remedy the inadequacies of U.S. trade policy. We hope that you, Mr. Chairman, and members of this Subcommittee will support such strong measures when a trade bill comes to the Senate floor. Without those changes, and especially without specific measures to turn our outrageous trade deficit around, the industrial base of our nation, the employment it provides in Indiana and other states, and the decent living standards it makes possible for working people, will wither and decay.

Mr. Chairman, in the 98th Congress, when the UAW was trying to pursuade Senators to support the House-passed domestic auto content legislation, UAW representatives met with you and many others. We called your attention to the growth of imports in the auto industry and the adverse impact this trend would have on U.S auto parts production and employment.

The problem the industry now faces would have been addressed by the content bill. The trade deficit reduction provision of H.R. 4800, the trade legislation which passed the House of Representatives in May, would also address this problem. We have not as yet succeeded in winning Senate approval of this bill. However, if legislative action is not taken soon, this important industry will continue to erode and unemployment in states such as your own will worsen.

The MOSS talks on auto parts can start us on the road to fair treatment for U.S. auto parts producers by Japanese auto makers. The jobs of hundreds of thousands of American workers are at stake in these talks and we will carefully monitor the progress made in the months ahead. Results must be quick and visible if the effort spent in negotiations is to be fruitful.

Thank you, Mr. Chairman, for providing this opportunity to offer our views on the current trade and employment situation in the U.S. auto parts industry and the need for progress in the U.S.-Japan negotiations underway.

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INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UA

OWEN F. BIEBER, *PRESIDENT* RAYMOND E. MAJERUS, *SECRETARY-TREASURER*

VICE PRESIDENTS
BILL CASSTEVENS • DONALD F. EPHLIN • ODESSA KOMER • MARC STEPP • ROBERT WHITE • STEPHEN P. YOKICH

July 10, 1986

Ambassador Clayton Yeutter
United States Trade Representative
Washington, D. C. 20506

Dear Ambassador Yeutter:

The agreement announced earlier this year to include auto parts in a new round of Market-Oriented Sector Specific talks with Japanese trade officials represents a significant opportunity to address a growing concern.

You and I both alluded to the problem in our remarks to this year's U.S.-Japan Automotive Industry Conference in Ann Arbor. Simply stated, the problem is the low-content North American transplant strategy being pursued by the Japanese automakers.

Now that the results of the Japanese parliamentary elections have indicated strong support for Prime Minister Nakasone's overall economic and trade policies, the UAW believes it is timely and appropriate to join the issue of low-content transplant operations thoroughly and pointedly in the forthcoming MOSS discussions. I am therefore taking this opportunity to share our specific concerns with you.

First, we believe the worst possible scenario would be to restrict the MOSS talks to narrow discussions about Japanese government regulations of auto parts imports. The broadest possible agenda should be put to the Japanese, so that discussions of the impact of Japanese trade and investment on the U.S. auto and parts industry can take place.

Nevertheless, because access for U.S. firms to the Japanese market is the primary purpose of the talks, and because breaking into the aftermarket on parts for Japanese cars sold here requires that our firms qualify as original equipment suppliers in Japan, it is imperative that the issues of access and qualification be raised as a general concern.

We view access and qualification in Japan as a means or bridge to a larger end, however, and that end is greatly expanded purchases of parts produced by U.S.-based companies for vehicles assembled here by the transplant firms. As you know, several U.S. parts producers have tried to get contracts to supply the transplants, but their success has been limited.

As Table 1 attached to this letter indicates, by 1990 there could be as many as 13 North American plants assembling up to 2.4 million Japanese-designed vehicles for the North American market. Several of these operations will be joint ventures between Japanese and Big Three firms. This vast expansion is part of an acknowledged strategy on the part of Japan-based firms to defuse "protectionist" sentiment in the U.S. and Canada while retaining most of the cost and profit advantage of home-based production. The latter goal is achieved partly by transplanting efficient production techniques but also by keeping North American parts purchases and design and engineering functions to a minimum.

Our studies, confirmed by independent research, indicate that the transplant assemblers are sourcing U.S.-made components which are low value, bulky and costly to transport, components which are highly standardized and materials such as aluminum and plastic which are cheaper here than in Japan. Typically, only about 30 percent (by value) of parts in their U.S.-assembled vehicles is sourced from our supplier firms. The higher U.S. content levels they report include direct and indirect labor, overhead and profit factors along with parts purchases. In general, except for final assembly and body panel stamping, most of the high value added and labor intensive operations are retained in Japan.

The job implications of the low-content transplant strategy are startling. Whereas a typical Big Three assembly plant producing 200,000 vehicles annually supports 25,000 "backup" parts and supplier jobs at a level of 95 percent domestic content, the transplant operation using only 30 percent U.S. parts generates only 6,700 such "backup" jobs (see Table 2). Assuming that increased sales of transplant vehicles displace 2.2 million units of Big Three sales by 1990, the U.S. faces a net loss of 200,000 jobs in the immediate future due solely to a surge in low-content transplant assembly.

Any job loss of this magnitude would be cause for concern, but these are also some of America's best jobs. Economist Lester Thurow and others have tracked the sharp decline in recent years of middle income ($12,500 - $50,000/yr.) jobs in import-sensitive manufacturing industries. Permitting Japanese and joint venture auto firms to pursue their low-content transplant strategy without challenge would significantly aggravate the trend toward a "two tier" U.S. labor market.

Failure to challenge the strategy would also mean little if any improvement in the bilateral trade deficit with Japan. Even if Japanese vehicle imports do not increase significantly, the use of an average of $3,000 worth of imported parts in each of the 2.2 million additional transplant-assembled units would add $6.6 billion to the automotive trade deficit by 1990, whereas reducing parts imports to the level of $1,000 per vehicle would reduce the potential addition to the trade deficit by $4.4 billion.

Further, the tendency of both U.S. and Japanese firms to source and design vehicles and major components from overseas for sale here has disturbing long-term implications for U.S. technological and industrial leadership. Foreign sourcing has already drastically undermined the strength of the automotive supplier sector. Domestic machine tool sales are down 50 percent since 1978 as U.S. firms have reduced production and sourced tooling from German and Japanese firms. In a highly "linkaged" industry like auto, the list of industries and capabilities which collapse as we source more and more production offshore is virtually endless.

Accordingly, we believe the best overall way to frame the MOSS discussions would be for our negotiators to target the bilateral trade deficit in automotive parts, thereby linking the U.S. and Japanese markets for purposes of arriving at an acceptable solution to the parts industry's problems. Such a broad framework would lift the talks above the distracting issues of company rivalries and competition among various states for new investment and would represent a much more enlightened approach than attempting to limit overall U.S. investment by Japan-based parts makers.

Other specific items that belong on the agenda include the "dumping" of Japanese auto parts in the U.S. to win contracts from transplant operations and, in particular, "downstream dumping"--the inclusion of materials, components or subassemblies which were obtained at less than fair market value and incorporated into auto parts sold in the U.S. Further, since the Auto Pact fundamentally ties the U.S. and Canadian automarkets together, our government must ensure that whatever protection is won for U.S. parts production through the MOSS negotiations is not subverted by U.S. imports from Canada.

I hope and expect these comments will prove useful to you. As the proliferation of the transplant operations takes us into Phase Two of automotive competition with Japan, the central importance of expanded U.S. parts purchases by the Japanese cannot be overstressed.

Sincerely,

Owen Bieber

Owen Bieber
President

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attach.

SUPPLIER JOBS CREATED BY AVERAGE ASSEMBLY PLANT

	% Sourced in U.S. by Transplant	Jobs Created	
		Traditional Domestic	Transplant
High Value, Foreign-Sourced			
Engines & Engine Parts	14%	1880	260
Exhaust Systems	50	320	160
Drivetrains	0	1550	0
Brakes	50	380	190
Wheels	100	170	170
Carburetors, Pistons, Valves, Rings	0	480	0
Fasteners	10	980	100
Gray Iron Foundaries	0	740	0
Standarized, U.S.-Sourced			
Radios	100	80	80
Electronic Components	0	20	0
Engine Electric	0	960	0
Refrigeration & Heating	100	250	250
Storage Batteries	50	380	190
Vehicular Lighting	100	200	200
Wiring	0	200	0
Motors & Generators	50	240	120
Bulky, U.S.-Sourced			
Seats	100	100	100
Stamping	75	1830	1370
Materials U.S.-Sourced			
Steel	50	810	410
Aluminum	100	190	190
Glass	100	120	150
Paint & Chemicals	100	420	450
Fabric	100	1280	1280
Plastics	100	460	460
Tires & Rubber	50	510	260
Other Materials	0	740	0
Tooling, Foreign-Sourced			
Machine Tools	0	350	0
Hand Tools	0	580	0
Investment Goods, Foreign-Sourced			
Machines	0	550	0
Office & Communication Machinery	0	510	0
Overhead, U.S.-Sourced			
Paper, Print, Furniture, Food	30	1050	310
Other	0	6500	0
TOTAL PARTS EMPLOYMENT		25000*	6700*

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* May not add due to rounding.

NORTH AMERICAN TRANSPLANT AUTO & LIGHT TRUCK PRODUCTION CAPACITY

(thousands)

	1984	1985	1986	1987	1988	1989	1990		Comments
UNITED STATES									
Honda Marysville, O. (1982)	133	145	220	360	360	360	360	o	Compact Accord (1982) and subcompact Civic (1987); employs 2,000; total investment: $637 million, including stamping, engine and plastic plants in 1986.
Acura* (1989)	---	---	---	---	---	120	120	o	Acura is an upscale division for Honda which begins importing the Integra (sport) and Legend (intermediate) to the U.S. in 1986 and will consider manufacture (1989) of Integra if sales are successful.
NUMMI (GM/Toyota) Fremont, CA. (1984)	---	35	100	200	250	250	250	o	Subcompact Nova; (to build 50,000 Toyota FX (sports) for Toyota (1987)); will employ 3,000; total investment $400 million.
Nissan Smyrna, TN. (1983)	95	150	200	240	240	240	240	o	Subcompact Sentra (1985), and small pickup (1983); employs 2,900; total investment: $745 million; engines, transmissions from Mexico.
Mazda Flat Rock, MI (1987)	---	---	---	120	300	300	300	o	Compact '626' (1987); 150-180,000 units to be sold by Ford; to employ 3,500; total investment $450 million.
Diamond Star (Chrysler/MMC) Bloomington-Normal, IL. (1988)	---	---	---	---	240	240	240	o	May produce subcompact Colt; to employ 2,500; total investment: $500 million.
Toyota Georgetown, KY. (1988)	---	---	---	---	200	200	200	o	Compact Camry (1988); to employ 3,000; total investment: $800 million, includes stamping.
Fuji-Isuzu Midwest (1989)	---	---	---	---	---	120	120	o	Fuji (Subaru) 4wd sedans and station wagons and Isuzu Trooper and P'up's; output to be split between the two firms; total investment, $480 million.
	228	330	520	920	1,590	1,830	1,830		
CANADA									
Hyundai Bromont, Que. (1988)	---	---	---	---	100	100	100	o	Hyundai will assemble the subcompact Excel and seek to operate under the Auto Pact; will employ 1,200.
Honda Alliston, O. (1988)	---	---	---	30	80	80	80	o	Compact Accord and subcompact Civic; expect to export 20-40,000 to U.S.; total investment: $250 million; stamping from Ohio.
Toyota Ontario (1988)	---	---	---	---	100	100	100	o	Subcompact Corolla; to employ 1,000; total investment: $400 million, includes assembly, stamping, welding, painting.
GM-Suzuki Ontario (1988)	---	---	---	---	60	100	150	o	GM-Suzuki soon to be announced JV in Ontario to assemble Sprint and Samurai.
Bombardier--Daihatsu* Quebec (1989?)	---	---	---	---	---	200	200	o	Minicompact 3-cylinder Venus; to be assembled near Montreal; total investment $500 million.
				30	340	580	630		
TOTAL NORTH AMERICAN	228	330	520	950	1,930	2,410	2,460		

* Not confirmed

Prepared by UAW Research Department; annual capacity estimates based on most current trade press announcements, subject to constant revision.

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CAR IMPORTS BY COUNTRY
(thousands)

	1984	1985	1986	1987	1988	1989	1990	Comments
North Europe	534	616	620	630	640	630	660	
Non-captive	534	606	580	590	600	610	620	
Merkur, Scorpio*	---	10	40	40	40	40	40	o Luxury vehicles being imported by Ford; Ford had originally planned to import up to 100,000 units and may ultimately do so.
Japan	1,906	2,217	2,400	2,450	2,500	2,500	2,500	
Non-captive	1,788	2,027	2,120	2,110	2,160	2,160	2,160	
Chrysler*	99	105	140	140	140	140	140	o Chrysler imports the Colt, Vista, Conquest from Mitsubishi.
Chevrolet*	13	85	140	200	200	200	200	o Chevrolet imports the mini compact Sprint from Suzuki and the subcompact Spectrum from Isuzu.
Korea	---	---	100	150	230	330	330	
Hyundai			100	100	100	100	100	o Hyundai begins importing subcompact Excel to U.S., February, 1986.
Hyundai/MMC			---	---	---	50	50	o Hyundai and Mitsubishi have a joint venture to produce the Mitsubishi Debonair, a very upscale executive sedan. Both firms will export the car to the U.S.
Daewoo/GM*			---	50	90	90	90	o GM/Daewoo are manufacturing the Opel Kadett for export to the U.S.
KIA/Ford/Mazda*			---	---	40	90	90	o Ford/KIA are manufacturing the Mazda-designed Festiva mini car for export to U.S.
Taiwan								
Ford Liotio/Mazda*	---	---	---	50	50	50	50	o Ford Liotio is manufacturing the mini compact Mazda GLC (323) for export to U.S.
Australia								
Ford Australia/Mazda*	---	---	---	---	50	50	50	o Manufacturing sporty derivative of Mazda GLC for export to U.S.
Mexico	30	30	30	30	160	160	160	
Ford Mexico/Mazda*					130	130	130	o Manufacturing Mazda GLC for export to U.S.
Chrysler Mexico*	10	11	30	30	30	30	30	o Chrysler assembles K-cars for export to U.S.
Brazil								
VW	---	---	---	50	50	100	100	o VW will produce the mini Voyage/Parati for export to U.S.
Yugoslavia								
Yugo	---	10	70	100	150	150	150	o Yugo will export four models ultimately, the Yugo GV, the larger 103 and 104 and the sports car TCX.
TOTAL IMPORTS	2,420	2,862	3,220	3,470	3,830	3,940	4,000	
* Captives	142	230	350	510	770	820	820	
Captive share of imports	(6%)	(8%)	(11%)	(15%)	(20%)	(21%)	(20%)	

SOURCE: UAW Research Department

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Transplant and Captive Sales as Share of Total Car Sales
(000's of units)

	1985		1990	
	Units	Share	Units	Share
General Motors				
Captives & Joint Venture	135	3.0%	490	11.0%
Japan	85		200	
Korea	0		90	
Joint Venture	50		200	
Traditional Domestic	4,472		4,120	
Total	4,607		4,610	
Ford				
Captives & Joint Venture	9	0.4%	540	26.0%
Europe	9		40	
Korea	0		90	
Taiwan	0		50	
Australia	0		50	
Mexico	0		130	
Mazda Flat Rock	0		180	
Traditional Domestic	2,061		1,530	
Total	2,070		2,070	
Chrysler				
Captives & Joint Venture	126	11.0%	310	27.0%
Japan	105		140	
Mexico	11		30	
Joint Venture	0		140	
Traditional Domestic	1,014		860	
Total	1,140		1,140	

SOURCE: UAW Research Department. These are estimates, based on publicly-available information. We assume total sales and company shares for 1990 to be the same as in 1985.

SUMMARY
STATEMENT OF
OWEN BIEBER, PRESIDENT
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW), and VICE PRESIDENT, AFL-CIO

before the

SENATE COMMITTEE ON FINANCE

on the subject of

TRADE POLICY

NOVEMBER 20, 1985

Mr. Chairman, my name is Owen Bieber. I am the President of the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) and a Vice President of the AFL-CIO. I wish to thank you for the opportunity to share our views on trade policy with you and the Members of the Committee on Finance. Appended to our prepared statement is a copy of the Resolution on International Trade and Investment adopted in October, 1985 by the 16th AFL-CIO Convention.

For several years now, we in the labor movement have tried to convince Members of Congress and policy-makers in the Administration of the need to develop our own long-term trade policy in the interests of the American people. The sad fact is that we do not have such a policy. Its absence has meant that we are taken advantage of by others who want to exploit our markets; we merely react, usually ineffectively, to their policies. It's time for us to call the shots for ourselves.

Now, with the trade deficit at a level that can only be described as an emergency, there appears to be much greater recognition on Capitol Hill, and even by some in the Administration, that "free trade" is an economists' concept, rather than a real world practice. It has not been, and cannot be, acceptable as national policy.

In years past, when trade was a relatively small part of our economy, the government's indifference toward unfair trade practices of other nations and ineffectiveness in negotiations concerning them was understandable. Similarly, the government's response to industries hurt by fair trade was slow and unsuccessful in preventing long-term injury to domestic production and employment. Today, there is no excuse for the continuation of this measured response to the trade problems of our industries.

In the domestic auto industry, for example, the most serious trade problem in recent years has been the enormous increase in the number of motor vehicles and automotive components exported to this country from Japan. Until the late 1960's, Japan severely restricted imports and local production of cars or investment in Japanese firms by foreigners. When Japanese production and sales were relatively small, these restrictions were a minor irritant to U.S. firms and of no particular concern to the U.S. government. However, by 1967, Japan had become the second largest auto-producing nation in the world, and these restrictions had grown in importance. The Japanese removed the investment restrictions soon thereafter. But by this time, the opportunity for U.S. firms to export in large volume or build capacity in Japan had been lost. Unfair restrictions on U.S. exports of cars remained in place, and continue today, despite many years of negotiation over their removal.

In 1988, when the output of new auto-exporting nations joins the unrestrained exports of Japan and Europe, the U.S. industry will face an even deeper crisis. Stimulated by unfair trade practices in Mexico and Brazil, and by incredibly low wage rates in South Korea, resulting from the lack of basic worker rights, imports from these countries will be available in large numbers in this country. The so-called "transplant" vehicles, produced in the U.S. plants of foreign companies or joint ventures of foreign and U.S. firms, will also be a source of continuous concern so long as they have much less U.S.-content than other domestically produced cars. The UAW conservatively estimates the combination of these forces will reduce auto industry employment in this country by about 25 percent before the end of this decade, eliminating hundreds of thousands of jobs that pay decent wages. The estimates of the U.S. Department of Commerce confirm those of our economists. We do not believe we are overstating the gravity of the immediate crisis facing our industrial base and the workers and communities dependent upon it.

The proliferation of unfair trade practices around the globe, as shown by the size of the Annual Report on National Trade Estimates just completed, and their impact on U.S. trade, has made bilateral negotiations over individual practices unworkable. We need an overall approach which gets the high-level attention of both our government and the governments of our trading partners. The UAW has supported the Trade Emergency and Export Promotion Act, S. 1449, as a vehicle for addressing this type of problem. This bill would impose penalties on countries which do not eliminate their excessive trade surpluses with the U.S. only if they fail to remove their unfair trade practices. S. 1449 proposes a surcharge on such imports. The sanction could be an embargo, quota, or another penalty and still be effective. Strong measures such as this must be pursued by the U.S. if progress is to be made in eliminating these practices and reducing the size of our trade deficit.

There are many foreign practices not considered "unfair" under current laws, but we believe they are. One of these is the abuse of the basic rights of workers. Such basic rights — to free association, to organize and bargain with employers, to standards for minimum wages, hours of work, occupational safety and health, to the prohibition of forced labor and a minimum age for employment — have been included in the U.S. law governing preferential treatment of imports from developing countries under the Generalized System of Preferences. Further recognition of the unfairness of denial of these rights under our trade laws is needed. While low wage rates, in themselves, cannot be defined as "unfair", the maintenance of such wages through repressive government action in the workplace should be defined as a subsidy for goods produced under these conditions which are exported to the U.S.

We believe that the industrial base of our nation and the standard of living of its citizens cannot easily bear a decay of these proportions in the domestic auto and related industries. The implications of this steep drop in domestic employment for other large manufacturing industries should be reason for great concern for all of us — for those of you with such industries in your states and for representatives of workers in these industries. There are many industries now, and there will certainly be more, subject to the same type of attack from imports produced under both fair and unfair conditions. We need these manufacturing jobs to keep our economy strong, our workers employed and our living standards high. The elimination of unfair trade practices, though important, will not alone prevent job losses. Other measures are needed. We need a trade policy which can effectively protect workers from worldwide transfers of capital and advanced technology. The constant search for low-cost production can only impoverish the American economy unless our government is willing to defend this market as other governments around the world defend their markets. The specific measures required to meet this challenge may vary from industry to industry. Our government must be ready to negotiate restraint with foreign governments which are the source of injury or potential injury to U.S. production. At the same time, commitments to investment in the industry must be obtained from domestic producers.

Mr. Chairman, we have appreciated this opportunity to discuss our views on the critically important issues you have under consideration. Thank you.

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STATEMENT OF
OWEN BIEBER, PRESIDENT
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND
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Mr. Chairman, my name is Owen Bieber. I am the President of the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) and a Vice President of the AFL-CIO. I wish to thank you for the opportunity to share our views on trade policy with you and the Members of the Committee on Finance.

The labor movement shares the belief of many Americans that the U.S. trade deficit constitutes a national emergency. There is no way we can afford the current imbalance in our trade relationships. The trade deficit is getting worse, not better. The burgeoning trade deficit is but a symptom, though, of what ails the U.S. economy. The lack of political commitment to a national trade policy which works for Americans allowed this situation to develop. Without our own trade policy, we have been forced to react to the policies of others. It is time for us to call the shots for ourselves.

It is argued that, since the end of World War II, we have had a trade policy — "free trade"— which operates in the best interests of our citizens, but "free trade" hardly describes the policies of the nations of the world. For nearly two decades, this approach seemed to be satisfactory because of the relatively minor impact of trade on our economy and the continuing weakness due to wartime devastation of both our former allies and adversaries alike. This situation could not, and did not, continue. Since the mid-1960's, the economic fortunes of the U.S. have been increasingly affected by the trade policies of other nations.

Rather than critically assess the impact of the growth of serious foreign economic competitors, our government continued to espouse and practice a policy of "free trade" while nearly all other developed nations maintained a variety of policies aimed both at limiting imports and encouraging exports. These fell into both the "fair" and "unfair" categories under our laws. U.S. firms made their own peace with these policies by investing in those countries which would allow it, producing for the market there and exporting to the U.S. and to other countries formerly served by U.S. exports. They even took their advanced technology with them when setting up these plants. Japan, however, either limited or barred U.S. investments in many key industries during this period, encouraging foreign firms to license technology to its own companies. During these years, the dollar was overvalued because of its role as the major reserve currency in a system of fixed exchange rates and the confidence of other countries in the strength of the U.S. economy, giving further incentive for U.S. firms to favor foreign investment to meet overseas demand. Even U.S. tax law favored foreign investment by granting special status to profits earned abroad and foreign taxes paid.

During recent decades, the U.S. has maintained an open market for the output of industries developed abroad to compete with our once dominant producers. Contributing to this competition are the American-based firms which joined the ranks of the "foreign producers" through wholly owned subsidiaries or joint ventures with companies abroad, adding to U.S. imports and replacing U.S. exports to other countries. U.S. multinational firms displayed little loyalty to their workers in the U.S. or the communities where they had become important sources of stability. Japanese firms, using acquired technology, a protected home market and a relatively low-paid workforce, have become internationally competitive in industry after industry in manufacturing. These firms and their competitors have transformed the world economy in the past 20 years and, with it, the status of the U.S. as the world's foremost manufacturing nation.

In 1985, there are hardly any industries in which American producers are free from tough international competition. Competitors in Europe, Canada and Japan are formidable in many areas of production, including those relying upon advanced technology. In addition, these developed countries have been joined by newly industrialized countries (NIC's), such as Taiwan, South Korea, Singapore, Hong Kong, Mexico and Brazil, among others. All of these nations, individually or through associations like the European Economic Community, have used government policies to help develop new industries, protect such industries while they are young, encourage their exports, limit imports of competing goods and, generally, assist in pursuing economic development strategies. There have been many unfair trade practices which contributed to this growing competition. The lack of priority given to trade problems by the government encouraged affected U.S. companies to accomodate to these practices rather than fighting them.

Some basic industries in the U.S were initially too strong, or their market too different from those abroad, to be subject to effective competition from imports. In the auto industry, for example, despite the investment of U.S. producers around the world to jump over barriers to U.S. exports, which began shortly after the turn of the century, imports have become a serious problem only in the past decade. The problem began with the oil crisis of 1973-74 which transformed U.S. demand for cars to more closely resemble the market in Europe and Japan. The demand for small, fuel efficient cars increased as a share of total sales.

In the last 20 years we have completed two rounds of multilateral trade talks intended to move all nations closer to the practice of free trade. Instead, the multilateral agreements have shifted the emphasis in protection of industries from tariffs to non-tariff barriers, of which there are an infinite variety. The attempt to deal with these newer barriers in the 1979 Tokyo Round of negotiations was frustrating for many of those involved and results have been modest. In the end, there has been no dramatic reduction in the barriers set up by our major trading partners. The size of the Annual Report on National Trade Estimates indicates this lack of progress.

Just as in the early post-war period, in 1985, the dollar is highly overvalued relative to the currencies of our major trading partners. This provides an incentive for U.S. firms to increase foreign investments (made cheap by the currency misaligment) and. substitute local production for U.S. exports and imports for U.S. production. The longer the currencies remain misaligned, the larger the impact on the U.S.

This combination of developments — the continued U.S. commitment to "free trade" as an adequate policy, the overvalued dollar and the proliferation of sophisticated competitors in a constantly expanding range of products and services — has produced what cannot be described as anything other than an emergency for our nation. It is a situation which cannot be wished away by calls to convene another round of multilateral negotiations as the Administration has done; it will not disappear because of "messages" sent to our trading partners by the Congress. In 1985, unlike 20 years ago, our trade problem is not a small part of the U.S. economy and it does not affect just a few, isolated industries.

The trade crisis we face is massive, with a merchandise deficit in the range of $150 billion expected for 1985. The much higher volume of world trade and international financial transactions and the links with the economies of other countries forged by U.S. companies operating in Europe, Japan, Canada and the developing countries make the U.S. trade emergency an international problem in which all Americans have an important stake.

The emergency was not created overnight. As we have indicated, problems did not just begin to appear with OPEC and with the oil crises of 1973 and 1979, or the run-up of the dollar beginning in 1980, or the debt problems of developing countries, or the slow growth of the world economy in the 1980's. All these factors have contributed to the timing of the emergency but solving each of those problems, and eliminating all identifiable unfair trade practices still would not undo the fundamental changes in the international distribution of production and employment which threaten to reverse the economic gains achieved in recent decades for American industry, its workers and the communities in which they live.

In the auto industry, we have watched problems broaden and deepen in the past 10 years as auto markets in developed countries have become more similar and developing countries have increasingly forced their integration into the industry's international structure. The same, or similar models are made and sold in many national markets by multinational producers. Parts are supplied from, and assembly takes place in, Mexico, Brazil, Korea, Taiwan, Malaysia and other developing nations.

Efforts to preserve domestic production of automobiles since 1979 give an indication of how inadequately trade policy has been handled by our government and how U.S. industries can be devastated by "fair" trade which was nurtured and supported by "unfair" trade. When the second oil crisis hit in 1979, sending gasoline prices sky high, demand for small, high mileage cars took off as well. Because of insufficient domestic capacity in this segment, the demand for imports increased — their share of total sales jumped from an already high 17.9 percent in 1978 to 26.7 percent in 1980. The impact of the oil price increase on all manufacturing industries was powerful and on auto production it was tremendous. Total auto sales fell, and domestic production and employment plunged even faster, each year from 1979 to 1982.

In the wake of the domestic auto industry's 1979 collapse, the UAW filed a petition for relief under Section 201 of the Trade Act of 1974. This section covers industries suffering injury from "fair" imports and allows tariff and/or quota relief. The International Trade Commission ruled against us by a 3-2 margin. The Commission recognized that imports were, indeed, a cause of injury to the industry, but found that the decline in total sales caused more injury. While we believe the ITC conclusion was wrong, it is important to recognize that the U.S. injury test is more stringent than the one required by the GATT.

The unfavorable ITC ruling contributed to a flurry of activity in Congress to limit Japanese auto exports to a maximum of 1.6 million per year for at least three years as a way of providing time for the domestic industry to become competitive in small car production. The reaction in Congress to this decision encouraged the new Reagan Administration to begin talks with the Japanese aimed at limiting their auto exports to this country. These talks concluded in May, 1981 with a voluntary restraint agreement (VRA) to limit exports to 1.68 million for the year ending March 31, 1982 and unspecified equal or higher limits in the following two years depending upon market conditions. Virtually all other major industrial nations already had much tighter restrictions against Japanese imports. Imports of Japanese cars have been held to a 3 percent share of the market in France and 10 percent in West Germany.

The agreement limited only Japanese imports of cars, not trucks or parts, and made no demands upon American firms to commit financial resources to competitive small car production. The fact that the U.S. government took any action at all indicated its recognition of the extremely weak condition of an industry of central importance to the U.S. economy and that the stiffest competition was coming from a country which not only shielded its own market from our exports but had also prevented investments in its auto firms by our producers until Japan had become the world's second largest auto producer. Despite the obvious injury to the industry, the Administration acted only because of strong congressional pressure.

The UAW recognized that, while this agreement was of decisive importance in limiting the impact of imports on auto employment and production, it was not enough to assure that U.S. facilities would emerge at the end of the restraint period internationally competitive in all auto markets, including the large market for small cars. Thus, even with the VRA, domestic output plummeted. For 1981, imports continued to increase their share of auto sales, accounting for 27.3 percent of cars and 19.8 percent of trucks, while domestic output fell to new depths. Unemployment among workers in the auto industry hovered at about 25 percent, as employment by auto and truck producers dropped by 250,000 and by the industry's suppliers an additional 500,000. The midwest section of the U.S., where production is concentrated was in an economic depression.

In December 1981, the proposed Fair Practices in Automotive Products Act was introduced to address the problems left untouched by the VRA. The legislation would have required the domestic content of cars sold by each company to increase with the volume of its U.S. sales. This requirement would apply to all companies equally, domestic or foreign-based. It would result in U.S. investment by firms with large U.S. sales and profits while maintaining high domestic content by existing U.S. producers to insure stability in parts production and employment. This is the type of government policy we believed then, and still believe, is needed when an important U.S. industry is threatened by imports which are not aided by recognized unfair practices. Despite passage of that legislation by the House of Representatives in 1982 and 1983, it unfortunately never came to a vote in the Senate and never came into play as a standard for fair trade in the auto industry.

With U.S. policymakers thus satisfied with only the VRA with Japan as the U.S. auto trade policy, we can look at the impact of this restraint from 1981-1984 and its extension to March 31, 1985 at the 10 percent higher level of 1.85 million vehicles.

The restraints on Japanese imports provided some stability in the industry, allowing U.S. firms to make important progress toward competitiveness. This occurred even though the most meaningful benefit of the VRA was only felt in the past two years, as the economy recovered from the 1980-82 recession. Large capital investments were made and research and development spending has grown in both dollar value and as a proportion of sales.

The impact of this commitment of investment in the auto industry also directly affects many other capital goods industries which are leaders in advanced technology and subject to intense international competition. The auto industry is a major consumer of computer-aided design equipment, industrial robots, machine tools and electronics as well as the products of other important industries, such as steel, rubber, glass and textiles which are struggling to improve their competitiveness. The size of the market provided by the auto industry for such products stimulates innovations in this wide range of industries which represent a large part of our economy's industrial base. The stability in the auto market established by the VRA made new investments and R&D spending possible in other industries as well.

The VRA helped in meeting its objectives while keeping car price increases modest. In subcompact cars, the market segment most affected by the VRA, price increases of U.S. cars have been quite low. The Bureau of Labor Statistics measure of new car prices rose less than the overall Consumer Price Index for the VRA period.

While the industry has made progress, serious problems remain. One of the foremost of these is the dollar-yen exchange rate. This problem, of course, also plagues all U.S. industries competing with Japan. From 1981 until as recently as September, the 25 percent appreciation in the value of the dollar gave Japanese cars a tremendous cost advantage and overcame the many cost reduction and efficiency promoting programs of U.S. auto makers. The 1984 U.S. deficit with Japan in autos was a staggering $20 billion. We expect this to grow by $5-$7 billion for all of this year because of the absence of restraints and the imbalance in exchange rates. The VRA was never intended to address this type of ongoing inequity, yet to have lifted it while the exchange rate inequity remained, exposed the industry to a disadvantage it could not counter on its own.

Our deficit with Japan was a huge $37 billion in 1984. It may reach $50 billion in 1985, despite repeated efforts to open export opportunities there. The endless hours of negotiations with Japan from 1980 to 1984 resulted in an increase in our exports from $21 billion to only $24 billion. All of this gain and more will be wiped out by the 1985 increase in Japanese car exports to this country.

The lifting of the VRA produced another inequity. The U.S.-based auto makers are abandoning domestic production of small cars in their own plants. GM has plans to import cars from Japan and Korea. These will be "captive imports", vehicles produced abroad and imported by U.S. manufacturers to be sold under their nameplate through their own dealer networks. Combined with the subcompacts produced by its joint venture with Toyota in Fremont, California, they add up to more small cars than GM has ever sold in a year. Even with the Saturn project commitment, GM will have become one of America's largest importers. Ford and Chrysler are increasing their own captive imports to compete. The failure of the Administration to devise an effective trade policy for the auto industry is in large part responsible for the industry pursuing this plan.

The ultimate failure of the VRA in auto to stabilize employment and production, especially in the small car segment, was due to its covering too short a period of time to convince U.S. producers of the need to make additional investments and its lack of recognition of the increasing internationalization of parts production. With a product cycle of about seven years and product development time of up to five years, the companies saw the VRA as only a temporary policy. They used their at first limited and later (1983-85) enlarged, financial resources to shore up their more profitable larger models to protect them from potential competition - rather than updating their less profitable small cars.

While imports in the 1979-84 period caused a significant loss of U.S. production and many lost jobs for workers, we believe that this period's difficulties will be overshadowed by the increase in imports from now to 1990. The plans of GM, Ford and Chrysler to import cars and purchase others made by joint ventures or foreign companies in the U.S. with a relatively large proportion of imported parts, will lead to reduced U.S. production and fewer jobs for American workers even if total U.S. sales grow. The UAW has made projections for 1988 which show how serious the auto industry's employment situation will be. We expect imports from Japan for sale by Japanese companies to increase from 1.7 million in 1984 to 2.6 million in 1988. Imports from Japan for sale by U.S. auto companies will grow from only 100,000 in 1984 to 500,000 in 1988 if only the already announced plans are carried out. European imports are expected to remain constant at 500,000, except for the increase of 100,000 cars imported by Ford for its own sales. By 1988, there will be new sources of significant imports. Plans of Ford and GM to bring cars in from Korea will add 200,000 and Ford and Chrysler will import 160,000 from Mexico. In addition, Hyundai, which began selling cars in Canada last year, should add 230,000. With these quite conservative assumptions, the total number of imported cars in 1988 comes to 4.3 million, of which nearly one million will be sold by U.S. companies. This compares with total 1984 imports of 2.4 million in 1984. The total increase in imports would, then, be 80 percent.

The UAW welcomes, but is also concerned by the growth of so-called "transplant vehicle" production in the U.S. These cars are made here by foreign companies, or by joint ventures of foreign and U.S. firms. Plants now in operation turned out 370,000 cars in 1984. These three operations will grow to at least eight in 1988, producing 1.4 million cars. Our current experience with these plants, and the announcements made by the companies involved, lead us to believe that a large proportion of the total value of these cars will be imported from Japan, Mexico and other countries. The value of U.S. production and labor in these vehicles will only add up to 30-40 percent of the total. In terms of generating employment for Americans, these vehicles are not in the same league as the over 90 percent U.S. content cars now made by the U.S. companies.

If we assume a strong auto market of 11.2 million sales in 1988, we have projected that it will be met by 4.3 million imports and 1.4 million transplants, leaving room for 5.5 million fully domestic car sales. In 1984, sales of such high U.S. content domestic cars were 7.6 million. The total impact of this shift to imports and imported major components, plus assumed productivity growth of 5 percent per year, would be a decline of about 25 percent in U.S. auto employment. The fully assembled import share would be 33 percent, compared to 23.5 percent in 1984.

We believe these assumptions about the growth in import share are conservative. There is a considerable potential for even greater import penetration, both from captive imports of the U.S. companies and imports from foreign producers. Anyone who thinks our projections are too pessimistic need only consult the study of the U.S. Department of Commerce from April, 1985 which estimated a 36 percent import share and 4.0 million imports in 1988. We in the UAW are hardly alone in our concern that the auto industry is on the verge of unprecedented import competition and employment losses. The plans of GM, Ford and Chrysler to dramatically expand their own imports are a blow to our members and to the companies' domestic suppliers, which have little chance of making sales to the foreign makers of small cars. This situation could have been avoided if our government had developed an appropriate response to the problem caused by "fair" imports back in 1981.

While this problem for the auto industry remains, the UAW has large numbers of members in other industries who have been hurt by ineffective trade policies. Not only increasing imports, but foreign restraints on our exports have cost jobs in the aerospace, agricultural implement and construction machinery industries.

Significant unfair restrictions on U.S. exports have hurt our exports of aircraft and auto parts, especially in Latin America. At the same time, growing imports from subsidiaries and licensees of U.S. companies are adding to imports from foreign companies in the construction and agricultural machinery industries. Exports of construction machinery have dropped from over 40 percent of industry shipments in 1982 to 20 percent in 1984. The spread of co-production agreements in the aerospace industry doubled the foreign content of U.S.-built aircraft from 1978 to 1983, and the trend is continuing. In many cases, though, the threat of lost markets and the appeal of special concessions from host governments and reduced costs convinced companies to accede to the policy goals which were the reason behind these unfair practices. Actions must be taken to promote our exports in many industries and in agriculture.

We have considered a variety of proposals, and the one which addresses most of our concerns and is the best available approach to counter the impact of unfair trade practices is the proposed Trade Emergency and Export Promotion Act (S. 1449). This bill takes note of the failure of the Executive Branch of our government to pursue our rights under the GATT to contest unfair trade practices abroad.

The focus of S. 1449 is on removing the unfair practices of some of our largest trading partners. It prevents the U.S. trade deficit with these trading partners from continuing to grow while their barriers remain in place. Under the bill, each country with an excessive non-petroleum trade imbalance with the U.S. would be assessed a 25 percent surcharge on its exports to the U.S. if its trade surplus does not fall by a specified amount. We can no longer accept the unending negotiations to remove unfair barriers to our exports, one by one, while the trade deficit undermines our industrial base. The Administration's inaction is inexcusable and the recent initiation of a few cases under Section 301 of our trade law is in no way an adequate response. In the past, we have negotiated with these countries over their unfair practices for years on end with only minimal success and little or no impact on trade. The surcharges imposed would be interim measures pending the removal of the unfair practices.

We believe that it is absolutely essential for the U.S. government to take effective action to control the trade deficit. The already dangerous 1984 deficit of $123 billion is headed to $150 billion this year. Our trade balance in manufactured goods has shifted from a surplus of $12.5 billion in 1980 to a deficit of $88.7 billion in 1984 and it is still getting worse. Our exports have barely changed over this period, while imports soared by $100 billion. This has led to serious trade problems for an ever growing number of manufacturing industries, even those counted among our most technologically advanced: semiconductors, telecommunications, computer equipment, chemicals and others. In fact, the U.S. trade surplus in high technology manufactured goods fell from $26.6 billion in 1980 to only $6.2 billion in 1984. Of this $20 billion decline, Japan has accounted for $12.1 billion and Brazil, Taiwan, South Korea, Hong Kong and Singapore together were responsible for $5.4 billion.

We in the UAW are also deeply concerned by the labor policies of the government's in South Korea, Taiwan and other developing countries which contribute to their undercutting U.S. workers. In these countries, repression of trade unions is often a central part of export promotion programs and efforts to attract investment by multinational producers. Workers are not afforded the internationally recognized worker rights of freedom of association and the right to organize and bargain with employers. The AFL-CIO, IUE, UAW and others recently testified that the labor practices of many countries constitute an unfair trade practice in hearings before an interagency staff committee on administration of the Generalized System of Preferences. The workers there have been prevented from obtaining a fair share of the wealth generated by large trade surpluses because of direct and indirect government repression. Lifting the constraints on worker rights in these countries would encourage the growth of their domestic markets. This would reduce the pressure to export and possibly open up opportunities for U.S. exporters. This is one area in which the definition of unfair trade should be expanded.

The suppression of basic labor rights should be treated under U.S. law and in international trade agreements as a subsidy subject to countervailing actions when imports which benefit from these abuses injure, or threaten to injure, a U.S. industry.

While there is still much work to be done in clarifying the distinctions between fair and unfair trade, there can be no doubt the American industries will be under intense pressure from both. The experience of the auto industry in seeking relief under Section 201 of our trade law makes clear that our current trade policy toward injury caused by "fair" imports is not adequate. We believe the number of these cases will be growing in the future as multinational firms, using advanced technology and equipment developed in their home market, seek out the lowest-cost location of production. A small but important step in responding to the problems of U.S. industries would be to change the injury test in Section 201 to the GATT standard from its current more stringent standard.

The remedies fashioned by our trade laws and policies must prevent serious injury to our important manufacturing industries through negotiations with our trading partners. U.S. trade policy must promote government actions which establish a stable domestic market and make investment in the U.S. desirable. At the same time, we cannot leave the actual decisions to invest solely to the firms in the industry. Our government's actions in defending our market must be conditioned on continued production and new investment by domestic producers.

In the area of unfair trade practices, the definition of such practices must be expanded and our trade policy must become more active. The U.S. can no longer afford to respond at a measured pace to unfair practices. Our government must be ready to negotiate forcefully over the variety of practices which hurt our industries and set firm time limits on these talks. The threat of retaliation must be real if we are to make progress in eliminating these practices.

Mr. Chairman, we have appreciated this opportunity to discuss our views on the critically important issues you have under consideration. Thank you.

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Senator QUAYLE. You have talked about the loss of jobs. What about the opportunities for United States employment in Japanese auto assembly plants that are located over here?

Mr. BECKMAN. Well, the overall impact of an assembly plant cannot be judged just by the employment generated by the assembly operation. We look at the impact on the overall auto industry. And the fact is that the assembly plants that have been set up, because they use primarily foreign parts, generate something on the order of one-quarter the number of jobs generated by a traditional U.S. assembly plant.

So, while there are 2,000 or 3,000 jobs produced in that assembly plant, the parts suppliers, the materials suppliers, do not win those contracts to supply those plants, and the employment is not generated in that part of the industry.

Senator QUAYLE. So your contention is that even if we make an investment here, the net job loss is, what, 75 percent?

Mr. BECKMAN. We have seen the impact of the movement of those plants to the United States. There are several in operation already, and we have looked at their sourcing, and we have found that somewhere on the order of 25 or 30 percent of the parts are U.S. sourced. And that means that the 70 percent of the parts that are not U.S. sourced, do not have any U.S. content, do not generate any American jobs, and are therefore shifting employment overseas.

Senator QUAYLE. So it is a substantial net job loss that is taking place, from your perspective.

Mr. BECKMAN. Definitely.

Mr. CASRAISS. Four to one.

Senator QUAYLE. Four to one. That is quite a dazzling statistic and quite substantial.

I am going to have to go. I am sorry. I thank you for your testimony.

I will come back and take Mr. Runyon's testimony after I vote on product liability.

Thank you very much.

Mr. BECKMAN. Thank you, Senator.

[Short recess.]

Senator QUAYLE. The committee will come to order.

Our final witness is Mr. Marvin T. Runyon, the president and chief executive officer of Nissan Motor Manufacturing Corp. in Smyrna, TN.

Before I yield to Mr. Runyon, let me call on Senator Grassley, who is a very valuable member of this subcommittee, for any comments or points of observation he might want to make during this hearing.

Senator GRASSLEY. Mr. Chairman, I will not do any more at this point other than put my statement in the record and to give as my excuse for not being here timely that I was on the floor, waiting for the commodity futures trading bill to come up, and it looks like it is not going to come up, so I am going to sit through the rest of this hearing.

Thank you very much.

Senator QUAYLE. Thank you, Senator.

[The prepared statement of Senator Grassley follows:]

STATEMENT OF SENATOR CHARLES GRASSLEY
ON THE EMPLOYMENT IMPACT OF U.S.-JAPAN
AUTO RELATIONS. SEPTEMBER 25, 1986

EVERY SOLUTION CREATES ITS OWN PROBLEMS. BACK IN 1981, THE UNITED STATES AND JAPAN AGREED TO A VOLUNTARY RESTRAINT AGREEMENT, WHICH REDUCED THE NUMBER OF JAPANESE CARS EXPORTED TO THE UNITED STATES. THIS ENCOURAGED JAPANESE MANUFACTURERS TO LOCATE PRODUCTION FACILITIES IN THE UNITED STATES. TO THE EXTENT THE LOCATION OF THESE FACILITIES HAS CREATED JOBS FOR AMERICAN WORKERS TO BUILD JAPANESE CARS IN THE UNITED STATES THAT MIGHT OTHERWISE HAVE BEEN BUILT BY JAPANESE WORKERS IN JAPAN, IT HAS BEEN A POSITIVE DEVELOPMENT. BUT THE VOLUNTARY RESTRAINT SOLUTION HAS APPARENTLY BEGUN TO CAUSE PROBLEMS FOR AMERICAN AUTO PARTS MANUFACTURERS.

THE LOCATION OF JAPANESE AUTOMOBILE PRODUCTION FACILITIES IN THE UNITED STATES HAS CAUSED CONCERN AMONG U.S. MANUFACTURERS OF AUTOMOBILE PARTS AND THE WORKERS EMPLOYED IN THAT INDUSTRY. ALONG WITH JAPANESE AUTOMOBILE MANUFACTURING FACILITIES HAVE COME JAPANESE AUTOMOBILE PARTS MANUFACTURING FACILITIES, WHICH SUPPLY PARTS TO JAPANESE AUTOMOBILE MANUFACTURING PLANTS IN THE UNITED STATES. THIS LATTER DEVELOPMENT HAS RAISED CONCERNS ABOUT THE

IMPACT OF THE INFLUX OF JAPANESE PARTS MANUFACTURERS ON U.S. PARTS MANUFACTURERS. THESE CONCERNS ARE LEGITIMATE. IT HAS BEEN ESTIMATED THAT 300 JAPANESE PARTS MANUFACTURERS WILL LOCATE IN THE UNITED STATES BY 1988. THE UNITED AUTOMOBILE WORKERS UNION HAS ESTIMATED THAT THE SHIFT IN DOMESTIC PARTS PRODUCTION TO JAPANESE PRODUCERS COULD RESULT IN THE LOSS OF 200,000 JOBS BY 1990.

ON THE OTHER HAND, AMERICAN AUTOMOBILE PARTS MANUFACTURERS HAVE BEEN UNSUCCESSFUL IN GAINING A FOOTHOLD IN THE JAPANESE MARKET. IT WOULD APPEAR THAT LACK OF ACCESS DUE TO THE TRADITIONALLY COZY RELATIONSHIPS BETWEEN JAPANESE AUTOMOBILE AND AUTO PARTS MANUFACTURERS ACTS AS AN IMPORTANT IMPEDIMENT TO U.S. MANUFACTURERS OF AUTO PARTS, BOTH IN THE U.S. AND JAPAN.

THE PROBLEM OF ACCESS IS BEING ADDRESSED IN THE CONTEXT OF THE MOSS (MARKET-ORIENTED, SECTOR SPECIFIC) TALKS THAT BEGAN LAST MONTH BETWEEN THE UNITED STATES AND JAPAN. I WILL FOLLOW PROGRESS IN THOSE TALKS WITH INTEREST, AS WILL MANY IN CONGRESS AND THROUGHOUT THE UNITED STATES. AT THE VERY LEAST, I THINK U.S. AUTO PARTS MANUFACTURERS HAVE A RIGHT TO EXPECT EQUAL ACCESS, PARTICULARLY IN THEIR OWN COUNTRY.

GIVEN THE STRONG PROTECTIONIST PRESSURES IN THE UNITED STATES, I HOPE THE MOSS TALKS WILL REACH A SUCCESSFUL CONCLUSION THAT GRANTS FAIR ACCESS TO U.S. MANUFACTURERS. I HOPE THESE HEARINGS WILL INSPIRE THE U.S. REPRESENTATIVES AT THE MOSS TALKS TO BE TOUGH - BUT FAIR - NEGOTIATORS.

Senator QUAYLE. Mr. Runyon, welcome. Senator Gore wanted me to pay special attention to you. As Senator Simon pointed out, you must be a very important constituency of Senator Gore's. He said that I would be impressed and overwhelmed by what you have to say, so I look forward to it.

STATEMENT OF MARVIN T. RUNYON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NISSAN MOTOR MANUFACTURING CORP. U.S.A., SMYRNA, TN

Mr. RUNYON. Thank you, Mr. Chairman. Senator Gore is a good friend of ours and of the State of Tennessee, and we are very proud of him.

I am Marvin Runyon, president and chief executive officer of Nissan Motor Manufacturing Corp. U.S.A., located in Smyrna, TN.

By the end of this year, our 3,300 employees will be building 240,000 cars and trucks a year. I will focus on three points in these opening remarks—first, our policies and procedures regarding parts procurement; second, the experiences we have had with U.S. parts suppliers; and third, what U.S. suppliers must do to capitalize on the advantage they have because of the dollar's lower value.

My first point is that our only objective at Nissan is to build the highest quality vehicle sold in North America. In support of that objective, we will buy from any supplier in any country that can best meet our stringent procurement criteria for quality, cost, and timeliness of delivery. National or corporate origin is of no consideration to us in choosing suppliers. The competition in our industry is global, and it is intense. We cannot afford to base parts procurement decisions on noneconomic criteria.

Our company's products are being critically examined by the increasingly sophisticated auto buyer, who will compare them in quality and price with vehicles made in Detroit, Japan, Korea, Yugoslavia, and before long, Mexico and Taiwan.

We intend to win this auto buyer's favor. That means when we purchase parts, we must focus on quality, cost, and delivery, not on national origin or content ratio. We have a mandate from our parent company in Japan to source as much as we can in the United States. But we also have mandates to match or exceed the quality of Nissan vehicles built in Japan and to make a profit.

Let me turn now to the experiences we have had with U.S. parts suppliers. We have initiated contact with more than 400 U.S. suppliers and another 1,800 have contacted us. Through a rigorous selection process, we are now doing business with 92 U.S. companies. When we reach full production later this year, our U.S. procurement value will be $380 million annually.

Included in our 92 United States suppliers are 10 subsidiaries of Japanese companies who are employing American workers. They are U.S. suppliers.

Frankly, I am shocked by the hue and cry that we hear from some traditional United States suppliers over Japanese auto parts investments in the United States. As a customer of parts suppliers, we believe that more vigorous competition can only be healthy. We treat United States subsidiaries of Japanese companies no differently from the way we treat other potential United States suppliers. We make no commitments to them until they have gone through the same selection process our other suppliers go through. Each must demonstrate before earning our business that it is the best available source in terms of our criteria.

With all of our U.S. suppliers, we are attempting to forge relationships different from those which exist in the traditional U.S. auto industry. For example, we are sole-sourcing our parts to them and we are working with them as long-term partners so that together we can influence quality and productivity. In fact, we are currently looking at joint ventures with several U.S. parts manufacturers.

Unfortunately, however, many American companies have not yet demonstrated that they can meet our quality, cost, and delivery criteria. And even some we have selected have disappointed us. In fact, we have far fewer problems with the parts we receive from Japan.

Our overall U.S. content is in the range of 45 to 50 percent. But I know that this committee is particularly interested in our content in terms of components.

I read a statement you made, Mr. Chairman, estimating that the United States manufacturing subsidiaries of Japanese auto companies procure only about 15 to 20 percent of their components from United States suppliers. We are actually closer to 30 percent now, and we are aggressively seeking local sources for an additional 30 percent of our parts content. We estimate, incidentally, that the Big Three source only an average of 35 to 40 percent of their parts to suppliers outside of their own companies.

My final point is the opportunity which has been created for the U.S. suppliers by the fall of the dollar. Many companies which met only our quality and delivery requirements before should now be cost-competitive as well. But the key to increased sales by U.S. parts suppliers to all auto manufacturers is productivity. And the key to productivity is quality. Quality means that if you do the job right the first time, you do not need inspectors, repair facilities, and repair workers; you do not have to worry about scrap parts; work does not come back to be redone.

In my experience, that is where the productivity gap exists in our industry. If U.S. parts suppliers can close the productivity gap, they will have become competitive.

I would like to conclude my testimony by quoting the conclusion of a recent Fortune magazine article on this subject:

> What the suppliers see as a conspiracy, Japanese customers, and increasingly their American counterparts, see as common business sense. They want to buy from the company that can do the best job.

We look forward, Mr. Chairman, to seeing an ever-increasing number of U.S. firms proving they are the companies that can do the best job.

Thank you.

[The prepared statement of Mr. Runyon follows:]

Statement

of

Marvin T. Runyon

President and Chief Executive Officer

Nissan Motor Manufacturing Corporation U.S.A.

Before the

Labor and Human Resources Subcommittee

On Employment and Productivity

September 25, 1986

Mr. Chairman, it is certainly appropriate for the Employment and Productivity Subcommittee to examine the question of how to increase sales of U.S.-manufactured automotive parts to Japanese automakers and their manufacturing subsidiaries in the United States. Productivity is the heart of the issue. I will return to that theme later.

I am Marvin Runyon, President and Chief Executive Officer of Nissan Motor Manufacturing Corporation U.S.A. We are located in Smyrna, Tennessee, where we make Nissan trucks and passenger cars. By year-end we will be operating at full capacity, building 240,000 units a year on two shifts with 3,300 employees. To get where we are today, we have invested $848 million.

My testimony will relate our Company's experience building vehicles in the United States. I will focus particularly on our experience as a customer of automotive equipment and parts producers. I hope I can shed some light for you on what is happening in our industry and explain the tough competitive environment in which we and supplier companies are trying to survive and prosper.

I have been with our Tennessee Company since it was established in 1980. I had recently retired from Ford after 37 years of building their cars and trucks, when Nissan invited me to create a new company. At that time, the competitive crisis of the U. S. auto industry was well underway. I had a deep belief that our country could be a competitive producer of automotive products, but I knew that things would have to be done differently than in the past. The last six years have reinforced my belief, although the jury is still out on what the future holds for auto manufacturers in this country--including our Company--and U. S. suppliers.

I will address four topics today: (1) our policies and procedures regarding procurement; (2) our local sourcing efforts and results to date; (3) our relationships with U. S. and Japanese suppliers; and (4) the outlook ahead.

NMMC Procurement Policy

Our procurement policy is straightforward. Our management team in Tennessee selects suppliers for the parts we buy on the basis of three criteria: quality, cost and timeliness of delivery. The research and development capabilities of candidate suppliers have also become important because they support quality and cost control.

The fact that the vehicles we manufacture are also being built in Japan means that most of the parts we need are already being produced in Japan. But that does not mean U. S. companies cannot supply us. In fact, we have a mandate from the Chairman and from the President of Nissan in Japan to source as much as we can in the United States. But we also have mandates to match or exceed the quality of Nissan vehicles built in Japan--which we are doing--and to make a profit--which we are not. The quality of parts American companies offer us must be as good as the quality we can get from Japan--or better. Cost must be the same--or lower. And we must be assured of timely delivery.

National or corporate origin is of no consideration to us in choosing suppliers. The competition in our industry is global, and it is intense. We cannot afford to base parts procurement decisions on non-economic criteria. We would not survive doing business that way. As a result, we buy parts from suppliers in Japan, the United States, Canada and Mexico. We will buy from any supplier in any country that best meets our criteria.

Our Local Sourcing Efforts and Results to To Date

Since we began operations, we have initiated contact with more than 400 U. S. suppliers, and another 1800 have contacted us. The process by which we select from among those suppliers is rigorous. Potential sourcing candidates for each part to be sourced are carefully reviewed by our Product Engineering, Supplier Quality Assurance and Purchasing Departments. On-site visits are conducted and specifications are reviewed with the potential candidates. Where appropriate, prototype samples are requested. Once a preliminary determination is made that certain suppliers--wherever located--can meet our quality and delivery standards, bids are requested. Sourcing decisions are then made on the basis of a financial analysis of each candidate's cost competitiveness. Through use of this process, we are now doing business with 92 U. S. companies.

Incidentally, some American suppliers have voiced frustration that they often cannot get design prints for parts directly from us. It is true they cannot in every instance. The reason is that we do not have the prints because of the different ways the U. S. and Japanese automotive industries operate. Typically in the United States, an auto company provides detailed design prints and asks suppliers to bid on a part. Japanese manufacturers, on the other hand, ask suppliers to assume more responsibility for the design and engineering of parts. So in some cases, Nissan does not own the designs for the parts it uses and cannot give them out.

One way to look at the results we have achieved in U.S. parts sourcing is in terms of the total value of our procurement. When we reach full production later this year, our U.S. procurement value will be $380 million annually. Whether you consider that a big number or a small one, it is $380 million worth of products that might not be produced in this country if we weren't buying them for use in our Tennessee facility.

Another way to look at our results is that we are buying from 92 U. S. companies which did not have our business a few years ago. I noted earlier that we employ 3,300 people. Our plant probably supports another 10,000 jobs, many of them in companies which supply us with parts.

Yet another way to look at our results is in terms of domestic content. Today we are at 45 to 50 percent, a little lower than we have been in the past due to depreciation of the dollar. We have arrived at that number by using the formula considered by Congress a couple of years ago when it debated legislation on domestic content, which includes the value of labor.

I know that this Committee, though, is particularly interested in what our results are in terms of components. I read a statement you made the other day, Mr. Chairman, estimating that the U. S. manufacturing subsidiaries of Japanese auto companies procure only about 15 to 20 percent of their components from U. S. suppliers. We are actually close to 30 percent, and we plan to increase that number to the extent U. S. suppliers can meet our procurement criteria. In fact, we are now aggressively seeking local sources for an additional 30 percent of our parts content. We estimate, incidentally, that the Big Three source an average of 35 to 40 percent of their parts to suppliers outside of their companies. In other words, we are already close to the Big Three in sourcing parts from independent U. S. suppliers, and our aggressive local sourcing plans should allow us to equal or even exceed them in the future.

But throughout this process, we will have to keep foremost in our minds the marketplace. Our Company's products are being critically examined by the increasingly sophisticated auto buyer who will compare them--in quality and price--with vehicles made in Detroit, Japan, Korea, Yugoslavia and before long, in Mexico and Brazil. We intend to win this auto buyer's favor by purchasing parts that enable us to do so. We must therefore focus on quality, cost and delivery, not on national origin or content ratios.

I want to diverge at this point to address an issue that I am sure is on your minds: the role Japanese companies that have located in the United States play in supplying us. When I spoke earlier of U. S. suppliers, I was including those companies. Ten of our 92 U. S. suppliers are subsidiaries of Japanese companies. They are building their parts here, and they are employing American workers. They are U.S. suppliers.

Frankly, I am shocked by the hue and cry that we hear from some traditional U. S. suppliers over new investments in the United States by

Japanese auto parts companies. Many state governments are actively seeking such investments, and as a customer of parts suppliers, we believe that competition from new entrants in the market can only be healthy.

Critics say that these Japanese parts suppliers would not risk the investments they are making if they did not know in advance they would get the business. I cannot speak for anyone but Nissan in Tennessee, but I certainly can assure you that Japanese subsidiaries planning to locate in the United States have no commitments from us until they have gone through the rigorous selection process I described earlier. We simply do not treat Japanese subsidiaries any differently from the way we treat other suppliers.

Our Experiences With U. S. Suppliers

I have noted that we are buying hundreds of millions of dollars worth of products from 92 U. S. suppliers. That suggests that American companies are doing something right. Indeed many are. For the most part, our domestic suppliers have exhibited outstanding performance in our quality program and they have controlled their costs well. Dana Corporation is one of those companies.

With those U. S. parts suppliers that have met our procurement criteria, we are attempting to forge new relationships. We are sole sourcing our parts to them. Our interest is in working together with them as partners on a long-term basis, which will enable us jointly to influence quality and productivity. In fact, we're currently considering joint ventures with several U. S. parts manufacturers.

But not all American companies which have sought our business have been able to demonstrate that they can meet our quality, cost and delivery requirements. Many cannot. Some that we have selected have disappointed us, despite the exhaustive process we go through in order to choose only truly qualified suppliers. I would rather not have to admit it, but the fact is we have far fewer problems with the parts we receive from Japan.

My experience with a few U. S. suppliers makes me somewhat skeptical when I hear trade association representatives boast about the competitiveness of U. S. industry. We are not interested in generalizations. We are interested in company by company, product by product evaluation. Competitiveness can only be proved in the testing lab, on the production line, in the finance department, in the auto dealers' showroom, and ultimately in the hands of the consumer. It cannot be proved in press releases or hearing rooms.

I am convinced that a big part of the problem with some U. S. suppliers is management attitudes. Let me tell you one story that illustrates an attitude problem we have encountered.

We sourced several parts for our truck to a U. S. supplier that seemed to meet our criteria well. But it turned out the company was unable to accept the differences in procedures and philosophy between us and their other customers. They were reluctant to let their engineers work directly with our engineers and insisted that all communications go through their sales resentatives. They seemed to think they could make our parts without input from us, but they were wrong. Our testing of samples uncovered many problems. Because communication could not flow directly, tooling had to be reworked three times and approval drawings resubmitted twice. A different American company is now supplying one of the parts, and another has been sourced back to Japan.

Many other U. S. suppliers with whom we have had contact have a more general attitude problem. They basically believe that if they are good enough for the Big Three, they are good enough for us. But we do not accept that assumption. We think our quality standards deserve our uncompromised attention--and we will not accept any supplier simply because it meets the needs of other manufacturers.

The Outlook Ahead

As I said earlier, we do have many fine U.S. suppliers, and I am confident we will be able to qualify an increasing number of U. S. companies to supply us. Since early 1985, the dollar has fallen from a rate of almost 260 yen to under 160. That implies an enormous shift in relative costs. The opportunity this shift creates for U. S. companies is tremendous. Many companies which before could meet our quality and delivery requirements but were not cost-competitive should now be able to meet all of our local sourcing criteria--and they will get our business. To take advantage of these changing circumstances, we undertook a major reorganization of our management structure earlier this year to bring our engineering, quality and purchasing functions together under one Vice President with the objective of focusing an all-out effort on local sourcing.

But the key to increased sales by U. S. parts suppliers to all auto manufacturers is productivity--the theme with which I started my statement this morning. And the key to productivity is quality. Quality means that if you do the job right the first time, you do not need inspectors, repair facilities and repair workers. You do not have to worry about scrapped parts. Work does not come back to be redone. In my experience, that is where the productivity gap exists in our industry. If U. S. parts suppliers can close the productivity gap, they will have become competitive.

I would like to be able to tell you we will achieve 100 percent U. S. content one day. Nothing would make us prouder than to be able to say we have achieved that, but we cannot make any such commitment. The only commitment we can make is to build the highest quality vehicles sold in North America. That is not an advertising slogan; it is a philosophy that pervades everything we do in Tennessee. I invite you to visit us in Smyrna to see firsthand how it works.

I would like to conclude my testimony by quoting the conclusion of a recent Fortune magazine article on this subject:

> What the suppliers see as a conspiracy, Japanese customers--and increasingly their American counterparts--see as common business sense: They want to buy from the company that can do the best job.

We look forward, Mr. Chairman, to seeing an ever-increasing number of U. S. firms proving they are the companies that can do the best job.

Senator QUAYLE. Thank you very much, Mr. Runyon.

I think you probably listened to the testimony of Mr. Beckman, with United Auto Workers, just previously to you. He indicated in response to a question I asked him that there would be a 4-to-1 job loss as a result of the trend lines in Japanese investment in this country.

Do you agree with that figure?

Mr. RUNYON. I would like to look at it from a little different viewpoint. We have provided jobs for 3,300 Americans by starting up a facility here that was not here before. Incidentally, our operations also provide jobs indirectly for another 10,000 workers.

So I think that by our coming to the United States to manufacture the cars and trucks that before were being imported into the United States, we have created a good number of jobs.

Senator QUAYLE. So the net effect is not a loss of jobs, but an increase of jobs; that would be your contention?

Mr. RUNYON. That would be my contention, that we have increased jobs, because before, these cars and trucks were coming completely assembled into this country. Now we manufacture them. And also, I say we have 3,300 employees now, and there are another 10,000 people in this country who have jobs because of our being there. When we increase the number of our U.S. suppliers, as we are actively seeking to do now, there will be more jobs created.

Senator QUAYLE. OK. That is a wide divergence of opinion, but that is why we have these hearings. I find it interesting; it is a statistic that is of interest to those of us in public life who look at jobs and employment, and unemployment statistics, almost on a daily basis.

One interesting situation which is of interest is the increase in auto suppliers from Japan who are coming over here to make the investment, an increase from something like 30 plants now to, they say, well over 100, perhaps a couple hundred, in the next 5 years, I think. Given the phenomenal growth of the auto supply companies from Japan investing here, and given the fact that an excess supply situation exists in this country, the more suppliers out there, the better quality and cost you may receive, and the more the merrier, from your point of view. But given this tremendous increase of Japanese companies that apparently are willing to come over here, given the additional supply, and given the fact that our people feel that we can compete on cost, and can compete on quality, and can compete on timeliness of service and delivery, and have essentially the same productivity—in some cases better—than their counterparts, I certainly have the perception that there is an understanding between Japanese companies and their counterparts in auto parts suppliers that are going to be coming over, that they are going to get the business; that "keiretsu" is alive and well and that this special relationship does exist. Given that, it is fairly difficult for me from a logical basis to conclude anything else. I sort of see it happening, see it occurring, and it is of concern.

Is my logic wrong? If I add two plus two, it certainly gets four in my book, just going through that thought process.

Mr. RUNYON. I can tell you how we source at Nissan Motor Manufacturing Corp. U.S.A. in Smyrna, TN. We source on three criteria: Quality, cost, and timeliness of delivery. And it does not matter to us who the suppliers are. The chairman of our company, who is chairman of Nissan Motor Co., Ltd., of Japan, has told me that we are not to give any favored treatment to Japanese companies, even if they are subsidiaries of the Nissan Co. Our sourcing criteria should be based on those three points, and that is all. Whatever the perception may be, it is not true in our case. I cannot speak for the Japanese automotive industry. I can only speak for our company. And I think if you will talk to the suppliers that come to us, you will hear that that is the way we do business. We want to do business with the people who are the most competitive.

Now, if there are a lot of Japanese manufacturers making their way to this country, there are two things I can say to that. One is, they are going to move the manufacturing of those parts from Japan to the United States and create jobs in the United States. True, they are going to be very strong competitors for the U.S. industry. But that is what this world is all about, competition. If they can move in, that means that they can compete better than the U.S. manufacturers who are here. If in fact the United States manufacturers are more competitive than the Japanese are, the Japanese will fail when they move in.

Senator **Quayle**. I certainly understand competition. I certainly understand the free enterprise system, that if you make a profit and are able to sustain that, you stay in business; if you do not, you do other things.

And I also think that Nissan, from what I have been told by Dana Corp.'s testimony this morning, operates as a sort of a model that perhaps we could convince others to emulate. Hopefully, as a result, we would be able to increase our business, assuming it is on a competitive basis. I am not asking for a free ride. I am not asking for any special help. I am just asking for access and a level playing field.

Our statistics, I guess, or at least from the statistics you have, there is more consumption of American products than what we had been led to believe; 15 percent is what we have quoted, 15 to 20 percent, and you say it is 30 percent. Maybe it is going in the right direction. We can argue about that at a different time——

Mr. **Runyon**. It is going in that direction rather rapidly now because of the shift in of the yen-dollar relationship. That is making, as I said before, people who have met our quality and delivery criteria much more competitive on cost.

Senator **Quayle**. But again, from your point of view—and I take seriously what you say, and I understand it and appreciate it—you are going to look around, and you do not have any preconceived ideas on who is going to be your supplier 5 years or 3 years from now. I certainly appreciate that, and I hope that that is the case in other companies. But I guess, as I say, just from a logical point of view, looking at these demographics, looking at these statistics, it is fairly difficult to convince me, not Nissan, that there is not some calculated strategy that this special relationship is going to provide opportunities. Because, you know, given this excess supply and a very competitive environment, to have such growth in Japanese investment it is hard for me to be convinced, in a general pattern, that there is not some sort of an understanding that companies coming over here are going to do very, very well.

Mr. **Runyon**. Senator, if what you say is true, and some companies—ours do not do this—but if some companies did use only Japanese suppliers, and they had to pay them more money for their parts, they are not going to be competitive in this business. So I just cannot see how they would continue to survive under those conditions.

Senator **Quayle**. Well, as I said, we are not asking for any free lunch; the only thing we want is competition. I certainly congratulate you in having an open-door policy, which you apparently do, and you have all done quite well, and I only hope that serves as a model for the way that we can continue. I also hope that your statement is correct—that we are going in a direction where there is a higher utilization of our domestic parts. I happen to believe that we are productive and have a high rate of productivity—as a matter of fact, have a high rate of productivity due to competition—than we did, say, 5 years or a decade ago. We are manufacturing cars and spare parts at a much more efficient rate today than ever, and I would say it is because of competition and nothing else, pure and simple. Competition is good for business, it is good for the consumer, and it is good for economic growth.

So I just want to conclude, and thank you for coming here today and giving us your viewpoint and your statement. We will be looking forward to working with you and others.

I was just handed an announcement, I might point out. Evidently today, the Department of Commerce is going to award a trade adjustment assistance grant of $400,000 for the development of an auto parts sales office in Tokyo. This is to be used to promote sales. So I think this attests to not only an interest that we have here in the Congress, but certainly an interest that this administration has, as a way that we might improve through access and to deal with this imbalance of trade deficit we have on a bilateral basis.

So with that announcement and your testimony, Mr. Runyon, this committee is hereby adjourned.

Thank you very much.

Mr. **Runyon**. Thank you very much.

[Whereupon, at 11:55 a.m., the subcommittee was adjourned.]

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